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FEBRUARY 27-MARCH 3, 1986

REPORT

BY THE

CHAIRMAN AND VICE CHAIRMAN

OF THE

SENATE DELEGATION

PURSUANT TO
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SENATE DELEGATION
ATTENDING THE CONFERENCE

TED STEVENS, Alaska, *Chairman*
EDWARD ZORINSKY, Nebraska, *Vice Chairman*

JAMES McCLURE, Idaho
DENNIS DeCONCINI, Arizona
MARK ANDREWS, North Dakota
ARLEN SPECTER, Pennsylvania
FRANK MURKOWSKI, Alaska

LETTER OF TRANSMITTAL

U.S. SENATE,
Washington, DC, September 1, 1986.

Hon. GEORGE BUSH,
President, U.S. Senate.

DEAR MR. VICE PRESIDENT: Pursuant to Public Law 86–42, approved June 11, 1959, and as chairman and vice chairman of the Senate delegation, we have the honor to submit a report on the 27th meeting of the Canada-United States Interparliamentary Group which was held in Tucson, Arizona, from February 27 to March 3, 1986.

Sincerely yours,

TED STEVENS,
U.S. Senator.
EDWARD ZORINSKY,
U.S. Senator.

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BACKGROUND AND COMPOSITION OF DELEGATIONS

Public Law 86-42, adopted on June 11, 1959, authorizes U.S. participation in interparliamentary conferences with Canada. The law provides that Members of the U.S. Congress are to be appointed to meet annually with representatives of the House of Commons and the Senate of the Canadian Parliament "for discussion of common problems in the interest of relations between the United States and Canada." The meetings are held alternatively in Canada and the United States.

UNITED STATES

Attending the meetings from the House of Representatives were: Michael D. Barnes, Maryland, Chairman; Dante B. Fascell, Florida; Sam Gibbons, Florida; Lee H. Hamilton, Indiana; Morris K. Udall, Arizona; James L. Oberstar, Minnesota; Bob Traxler, Michigan; Bill Richardson, New Mexico; James Weaver, Oregon; Bill Frenzel, Minnesota; Arlan Stangeland, Minnesota; David O'B. Martin, New York; and Jim Kolbe, Arizona.

Representing the U.S. Senate were: Ted Stevens, Alaska, Chairman; Edward Zorinsky, Nebraska, Vice Chairman; James A. McClure, Idaho; Dennis DeConcini, Arizona; Mark Andrews, North Dakota; Arlen Specter, Pennsylvania; and Frank H. Murkowski, Alaska.

CANADA

The members from the Canadian Senate were: James Balfour, Saskatchewan, Co-Chairman; Lowell Murray, Ontario; Nathan Nurgitz, Manitoba; Henry D. Hicks, Nova Scotia; H.A. Olson, P.C., Alberta South; Rickard J. Stanbury, Ontario; and George C. Van Roggen, British Columbia.

The House of Commons were represented by: Pat Nowlan, M.P., Co-chairman; Barbara Sparrow, M.P., Alberta; Jean Charest, M.P., Quebec; John A. Fraser, P.C., M.P., British Columbia; Sid Fraleigh, M.P., Ontario; Tom Hocken, M.P., Ontario; Bill Kempling, M.P., Ontario; Ross Belsher, M.P., British Columbia; Jim Caldwell, M.P., Ontario; Jack Ellis, M.P., Ontario; Charles-Eugene Marin, M.P., Quebec; Gordon Taylor, M.P., Alberta; Darryl Gray, M.P., Quebec; Lloyd Axworthy, P.C., M.P., Manitoba; Don Boudria, M.P., Ontario; Jim Fulton, M.P., British Columbia; and Pauline Jewett, M.P., British Columbia.

COMMITTEE I—TRADE AND ECONOMICS

United States and Canadian economic conditions and policies specific trade issues:

Softwood lumber.

Steel.
Fish products (East Coast).
Tax on tourist literature.
Canadian pharmaceuticals.
Copyright law as related to communications.
Canadian provincial liquor boards in context of Government procurement.
Shoes.
Canadian investment policy for culturally sensitive sectors (book publishing; broadcasting).
Visas for service technicians.
Canadian hog and pork imports.
U.S./Canadian beef trade.
Canada subsidized freight rates.
Impact of U.S. Farm Bill.
Expanded civil aviation relationship.
Cargo diversion.

COMMITTEE II—ENERGY, DEFENSE, AND MULTILATERAL ISSUES

Energy:
Canadian and U.S. deregulation of natural gas (including transportation problems).
Implication of decline in oil prices.
U.S./Canadian trade in uranium.
Western electricity trade.

Defense:
Arms control.
SDI; unified space command.
NORAD renewal and Canadian role in North American defense.
Canadian defense spending and role in NATO (Canadian defense white paper).
Defense production sharing.
Space Station Cooperation.

Multilateral:
LDC debt.
Terrorism.
Contadora process.

COMMITTEE III—FISHERIES, ENVIRONMENT, AND BOUNDARY ISSUES

Fisheries:
Fisheries management (East and West Coast; Yukon and Gulf of Maine), including implementation of Pacific Salmon Treaty.
High seas interception of salmon.
Minnesota-Ontario border fishing issues.

Environment:
Acid rain.
Toxic wastes.
Garrison diversion.
Flathead River.
Great Lakes water quality and water levels.
Nuclear waste disposal.

Asbestos.
Transboundary:
Northwest Passage dispute (Arctic sovereignty).
Stikine River Access (Alaskan Panhandle).
St. Lawrence Seaway.
Resolution of outstanding boundary issues.

PLENARY

Enhanced Canadian/United States trade arrangement.

COMMITTEE I—TRADE AND ECONOMICS

The Committee on Trade and Economics was co-chaired by Pat Nowlan and Frank Murkowski. Besides Mr. Nowlan, other members of the Canadian delegation serving on the Committee were Senators George Van Roggen, Lowell Murray, and Richard Standbury, and Members of the House of Commons Bill Kempling, Darryl Gray, Jean Charest, Jim Caldwell, Don Boudria, and Lloyd Axworthy. In addition to Senator Murkowski, the U.S. members participating in Committee I were Representatives Mike Barnes, Sam Gibbons, Jim Weaver, Bill Frenzel, David Martin, and Senators Ed Zorinsky, James McClure, Mark Andrews, and Arlen Specter.

United States and Canadian Economic Conditions and Policies

An American delegate commenced the discussion with a presentation on the U.S. economy. For the year 1985, U.S. real economic growth was 2.5%, unemployment declined to below 7%, and inflation remained low for recent years at 3.6%. The negative side of the ledger was the historic high deficits on the trade balance and the federal budget, and the absence of any improvement in productivity.

The forecasts for 1986 show further economic improvement. The Office of Management and Budget is projecting real growth of 3.6–4%, inflation of 3.5%, unemployment of 6.7%, and some improvement in productivity. The private forecasters are somewhat less optimistic, but their latest projections came out before the rapid decline in oil prices.

Business investment was soft in 1985. Consumer spending was a strong point in 1985, and consumer debt reached an all-time high. Agriculture remained depressed during 1985 and does not face a much better outlook for 1986.

The U.S. and the world economy require German economic policy to be stimulative, but we are not getting it. Germany should reduce interest rates, so the Federal Reserve can do likewise.

Monetary policy, which was expansionary in 1985, is unclear for this year. Especially with the falling dollar and the concern over the impact that could have on inflation, it is uncertain as to the direction monetary policy should take. Gramm-Rudman will have the impact of reducing the federal deficit, so government spending will no longer be as stimulative—may even be somewhat depressing—as in the past serveral years.

The bright spots in the economy are a booming stock market, a substantial fall in the value of the dollar which will lead to a rise in exports, the decline in oil prices, and the fall in interests rates of 3–4 points over the past eighteen months. The question marks are: will the fed continue to pursue an expansionary monetary policy

that will encourage investment growth; to what extent and when will the fall in the value of the dollar bring an improvement in the trade balance; what impact will the decline in oil prices have on the economy and on the federal deficit (and on Gramm-Rudman); and what will be the economic impact of a tax reform bill? Overall, the economic outlook for 1986 is favorable.

A member of the Canadian delegation presented a broad overview of economic conditions in Canada. 1985 was a good year economically for Canada, as should be 1986. The federal deficit stands at $29.5 billion. Unemployment declined from 12% to 11.6% in 1985. GNP growth is projected at 4.5% for 1986. The soft spots in the economy are on the two coasts. Industrial spending and productivity are both on an upswing, housing is strong, and orders for durable goods are up. The impact of falling oil prices has yet to be assessed, or yet to be seen, as most oil is sold on a contract base of $22-25/barrel.

Another Canadian reviewed some of the specifics of Canadian economic conditions. The economic situation in the Maritime provinces is particularly soft. Unemployment is as high as 20% in Newfoundland; potato prices at 2 cents/pound are below production costs of 6 cents/pound; and, fishing is mixed. Tourism and construction have been relatively strong. In Quebec, the new government is attempting to reduce the role of the public sector and strengthen the private sector. Ontario is enjoying strong growth, capital investment is up, and economic activity will be further boosted by declining oil prices. Manitoba is suffering from severe agricultural difficulties, but construction is up. Saskatchewan and Alberta have enjoyed a return of economic growth, but they will be hit by the decline in oil prices. British Columbia (BC) is anticipating 14.5 million visitors to the 1986 world exposition, which will make tourism the third largest sector of the economy this year. However, B.C. is suffering from reduced activity in forestry and low coal prices. Salmon fishing is at its highest level ever, and the province is experiencing a rapid growth in aquaculture. Overall, economic activity in B.C. will be stable but not strong.

A Canadian delegate inquired as to the constitutional problems of the Gramm-Rudman law and the likely outcome of the court case. One American responded that no one really knows what the likely impact will be, but the Gramm-Rudman cuts are likely to take effect for 1986 even if the law is declared unconstitutional. The impact of cuts will not be large in 1986, but could be very depressing if imposed in 1987. The alternatives are that (1) Gramm-Rudman will force the President and the Congress to compromise on the budget, (2) Gramm-Rudman will take effect, or (3) there will be further budgetary stalemate.

Another American predicted that the 1987 cuts will not take effect and that the Congress will "chicken out." Gramm-Rudman puts the entire burden of deficit reduction on 27% of the budget. That is the flaw in the law, and the Congress will back away from it. It should be realized that part of the 27% that is subject to cuts involves what, in essence, are investment programs. Hopefully the law will be changed to apply the reductions to 100% of the budget—an across-the-board freeze of defense and entitlements.

The Senate Budget Committee may put forward a bipartisan across-the-board freeze in the coming weeks.

Another American delegate also expressed the opinion that a flat budgetary freeze is a possibility. He predicted that the Supreme Court will uphold the lower court ruling and that the Congress would not enact legislation to retain the 4.3% cut. He reported that the President signed Gramm-Rudman only because his Attorney General advised that it was unconstitutional, so he knew it would not take effect. There is considerable anger among the public over Gramm-Rudman, and it will be difficult to vote for a second similar triggering mechanism.

Several U.S. members expressed the view that political pressure to reduce the federal deficit will remain strong, particularly when the Congress is faced again this year with voting to raise the debt ceiling, and as concern rises that interest payments on the deficit already take a 16% bite from the federal budget and are on an ever-increasing spiral.

A Canadian asked whether the opinion expressed by Chairman of the Federal Reserve Paul Volcker that the decline in the value of the dollar has gone far enough reflects an effort in Washington to halt the decline. The answer was "no". Most Administration officials are seeking a further decline in the value of the dollar. Volcker, however, feels the decline should not continue further because of his concern over (1) the potential chaos that would be created if the dollar went into a free fall, (2) LDC debt, especially Mexico's ability to meet its payments, (3) the inflationary impact of a lower valued dollar, and (4) the potential for a sudden outflow of capital.

A Canadian asked what the impact of the slide in oil prices would be on the U.S. economy—would it help cut the federal budgetary deficit and would the resulting decline in inflation help fuel economic growth? An earlier analysis had suggested that each dollar/barrel decline in oil prices would bring a 0.3% growth in GNP, a 0.5% cut in inflation, and save the government $6–8 billion. Is that the case? The Americans suggested that no such calculations could be substantiated at this time, but that the potential impact on financial institutions and oil exploration could be quite serious.

An American suggested that the new Canadian budget indicated there was no serious effort in Canada to reduce the budget deficit. Several Canadians responded. One reported that the rate of increase in budget spending had been turned around and that the new budget proposed some increase in taxation, but that the current Government got burned early on the issue of indexation of pensions and must move somewhat cautiously. Another said that the difference in the U.S. and Canadian budget processes and structures demonstrates a major difference between the two countries—that much of the Canadian budget is transfer payments that cannot be altered. Some provinces lack a fully developed private sector and are supported by transfer payments by the central government. There is greater government intervention in Canada than in the United States because of provincial differences that have to be evened out. The new budget does raise personal income taxes

and reduce business taxes, and that is where the debate is between the government party and the opposition.

Agricultural Issues

The members of Committee I decided to combine the various agricultural issues on the agenda and engaged in a rather wide-ranging discussion of Canadian and U.S. agriculture. Several American delegates briefed the Committee on the current state of U.S. agriculture and on the farm bill enacted in 1985. It was a very difficult year for U.S. agriculture, and 1986 looks to be no better. The situation has deteriorated so far that it is now threatening the agriculture credit system, which is facing a $3 billion loss. One-third of all farms now have a seventy percent debt-to-assets ratio, and farm repossessions have been widespread. Land values have declined, and there has been a negative impact in farm communities, particularly on schools which depend on property taxes for their financial support.

The Administration's solution to the farming crisis is market clearing prices (which puts added pressure on farmers) and increased export, but at the same time it is attempting to make discretionary the congressionally mandated $2 billion Export Enhancement Program (EEP—to use CCC stocks to subsidize farm exports). The compromise is likely to be a $1 billion mandatory program.

Over the past several years, Canada and the United States have been arguing over Canadian hog and pork exports to the United States. Last year four U.S. pork producing states restricted the entry of livestock for health reasons, because of Canadian use of chloramphenicol, an antibiotic not approved for use in the United States. On June 12, 1985, Canada banned the use of chloramphenicol, and all of the states except for South Dakota have lifted the restrictions on Canadian livestock and meat. The other issue has been over U.S. allegations of Canadian subsidy. The U.S. industry brought a countervailing duty case before the International Trade Commission (ITC), the result of which was a finding of subsidy on both live swine and pork products. No injury was found in the case of pork, but a $7/head import duty was levied on hogs.

A U.S. delegate reported that there is increasing anger in the American hinterland. The $2 billion EEP subsidy has not been implemented, and the Administration is arguing it can only be used for old, not new, customers. The new loan rate for wheat is $2.30, which definitely will be internationally competitive. What is needed is total open trade between Canada and the United States.

A Canadian member explained that Canadian farming faces similar problems. In addition, Canadians are scared over the potential impact of the new U.S. farm bill. The reduction of the $2 billion Export Enhancement Program to $1 billion is encouraging news, but Canadians would prefer it be eliminated altogether. If U.S. prices for grains fall, Canadian prices will follow. One solution to the farm financing situation in Canada is to write down part of the debt, but that is not a popular solution; another option would be a moratorium on farm credit. The border should be open to free flow of live hogs.

Another Canadian also expressed serious concern over the impact on Canada of the new U.S. farm bill, that it will push Canadian farms out of business. Canada cannot compete in a U.S.-European agriculture war. Canada is a low production, high price producer, and low U.S. prices would push the Canadian producer to the wall. What is needed is stability in grain prices and markets. We both are competing for a declining foreign market; we are losing markets as Third World countries no longer can afford food imports.

Regarding the subsidized freight rates for farm products which several U.S. members had mentioned in passing, a Canadian explained that it is important to understand the historic significance of those rates. They came about as a result of federation, with the western provinces agreeing to enter the union in return for access to transportation that would allow them to get their products to market. It was seen as the most efficient way to encourage economic growth in the region. There is gradual movement toward reducing the subsidy element, but total elimination will be very difficult to attain. New legislation further deregulates transportation, and the farmer's portion of the shipping rate is raised from 50% to 60%. In fact, the $675 million annual cost of the subsidy is "peanuts" compared to the various American transportation subsidies, such as in water transportation. Canada understands the U.S. concerns over the changes in certain definitions under the Crow's Nest Pass Act, which permits certain products to be shipped into the United States under the subsidized rates, and Canada is making changes to deal with those complaints.

An American delegate noted that half the world does not have sufficient food to eat, and you can win more friends with wheat than with bullets. The new U.S. farm policy based on market clearing prices will bring the European CAP (Common Agriculture Policy) to its financial knees, as the European price for wheat ranges from $4.50 to $10, whereas the U.S. price will be $2.30. An alternative would be to factor in U.S. NATO expenses—Europe reaps billions of dollars of benefit from those expenses, so maybe the U.S. should charge a "defense fee" on European exports to the United States, or simply reduce the U.S. NATO presence. The cost of the U.S. farm bill is estimated at $52 billion over three years, compared to an annual EEC farm subsidy cost of some $40 billion. American farmers are against the new bill because they consider the price subsidy level to be too low. Gramm-Rudman would cut the subsidy level even further, and the President's 1987 budget shows agricultural programs at $4 billion below their 1986 level.

Several American members described the prospects for U.S. farmers. One estimate is that 30% of farmers will be out of business under the new farm legislation. Those farmers who are currently doing best are small farmers who have second jobs in town; and, secondly, large efficient farmers, but their return on investment is minimal.

A Canadian expressed concern that the U.S. farm bill could result in major Canadian/U.S. difficulties. An American responded that the alternative would be for the United States to reduce production by fifty per cent and produce only for a protected domestic

market, with the Japanese and other purchasers going to third countries to develop their agricultural supplies.

An American member closed the discussion by noting that there is no country that has a sensible agricultural policy.

Canadian Investment Policy for Culturally Sensitive Sectors

A Canadian commenced the discussion of his government's policies toward investment in culturally sensitive sectors by explaining that the government is reviewing the statutes and has new policies under consideration, in part in an effort to address American concerns. An American said there is particular concern in the United States on the likelihood that Canadian policy will require Gulf-Western, which acquired Prentice-Hall in December, 1984, to divest the latter company's Canadian subsidiary. There are similar irritants in the related areas of border broadcasting and telecommunications—what is it that Canada is attempting to protect?

A Canadian explained that protection of the Canadian culture is a very sensitive issue in Canada, but the debate over the proper policy is still unresolved. Eighty percent of Canadian publishing is foreign owned, but the twenty percent which is Canadian owned accounts for 80% of literature of Canadian origin. There obviously is need for a cashflow to sustain Canadian publications, as is true for films and television. The outcome of the Prentice-Hall case is uncertain, as it is caught between two conflicting Canadian policies—the cultural policy which states that culturally sensitive sectors should be reserved for Canadian ownership, and the foreign investment policy which says the country should be open to foreign investment.

An American stated that one reason for the American concern in this situation is that Gulf-Western would be subject to Canadian policy being made retroactive—the cultural policy specifying that foreign acquisition would be permitted only under conditions of divestiture within a reasonable period of time (two years) was announced in July 1985—and the U.S. firm could incur unexpected economic loss from what had been a legitimate purchase.

A Canadian explained that it is not just culture that is involved, but also special interests that may benefit from strict Canadian ownership. Another Canadian said that Canada is swamped by foreign culture. Only two percent of screen time in Canadian movie theatres is devoted to Canadian produced films. Even with the introduction of Invest Canada, which made Canadian policy more favorable to foreign investment, the government reserved the right to review foreign investment in culturally sensitive areas. In fact, Gulf-Western may be spared the requirement of divestiture for the reason that it would be a retroactive application of policy. Two ministers of the Canadian Government are in active negotiations with the U.S. firm and counter-offers have been made. However, any new indirect acquisitions will fall under the terms of the new cultural policy.

Canadian Copyright Law

The Canadian government has pursued various policies the impact of which is to lessen the impact of U.S. copyright industries

upon Canada's cultural sector. They go beyond copyright and telecommunications matters and include regulation of theatrical film releasing practices, domestic content quotas for radio and television, and taxation disincentives for Canadian advertising on U.S. television stations.

A Canadian delegate explained that a government white paper and the recommendations of a Parliamentary Subcommittee on Revision of Copyright seek to deal with many of these American concerns. Prime Minister Mulroney promised to make a good faith effort to attempt to resolve these difficulties, and it is hoped that the recommendations will do just that. In particular, the recommendations may move to resolve U.S. concerns over the unauthorized retransmission of U.S. copyright television programs and the protection of computer software.

An American delegate reported that border broadcasting was still an issue and that both the Canadian policy and the resulting U.S. mirror legislation were silly. A Canadian responded that it is a matter of geographical location and the need for operating income for Canadian stations. It was reported that seventy per cent of the contributions for the PBS stations in Seattle and Watertown come from Canada. It was also noted that new technology may bypass the issue and that what is needed is a North American cultural/communications policy designed to promote and protect the industry in both Canada and the United States.

Steel

An American member opened the discussion on trade in steel with a presentation of U.S. concerns over the impact of subsidized, dumped imports on U.S. production. He explained that U.S. remedial proceedings have been inadequate because the President has overridden the findings and decisions. He reported that the U.S. Administration says that voluntary restraints are working well, but he disagrees. Trade in steel ties in with broader attitudes on trade, with the growing anger over the loss of jobs due to unfair trade practices of other countries.

A Canadian responded that Canada and the United States are the world's two largest trading partners. Canada spends $1.29 on steel in the United States for every $1 of steel exported to the United States. There is considerable movement back and forth across the border in steel trade. Canada is a fair producer of steel and does not dump. It was the only country to hold back on steel exports to the United States in 1985. Canada shares American concerns over third country steel entering the United States via Canada and has established a special review system to check and prevent such transfers. The U.S./Canadian market is the most open/integrated steel market in the world. Canada recognizes U.S. problems in steel trade, but wants to be recognized as a fair partner and as part of a North American market. Canadian exports represent only 3% of the U.S. market.

Several U.S. delegates agreed with the Canadian presentation that Canada is a fair trader in steel and that U.S./Canadian trading relations in steel are good. It was noted that the United States appreciates Canadian efforts to prevent the transiting through

Canada of third country steel, particularly the cooperation of Canada Customs. The United States altered its regulations on stamping origin of manufacture when they were determined to be detrimental to Canadian interests. U.S./Canada companies and the two governments have worked well in this area, and Canada has cooperated with the U.S. steel program even when other countries have not, and it is appreciated.

Tax on Tourist Literature

Regarding the imposition several years ago of a 10% federal sales tax on all tourism and travel literature, from which the United States has been seeking relief, a Canadian delegate explained that the American concerns were being dealt with in a two-step process. Phase one, elimination of the tax on literature published by government agencies retroactive to May 1985, has already been implemented. Phase two will be to exempt from the tax literature published by non-profit organizations.

Several American members expressed appreciation for the Canadian government resolving this matter. A Canadian pointed out that this issue is a concrete example of the benefit of the Canada-U.S. Interparlimentary Group, as members of the Canadian delegation to a prior meeting worked on finding a solution to the problem.

Visas for Service Technicians

An American member explained the source of the recent difficulties regarding visas for service technicians. In *Bricklayers* v. *Meese* a U.S. District Court ruled that it is illegal to grant B–1 visas (visas for business visitors) to foreign technicians to install, service, or repair foreign equipment or machinery bought by U.S. firms. He reported that, even though in December the Court of Appeals modified the injunction to permit, pending appeal, issuance of visas to foreign technicians except those coming to perform building and construction work, his district office is still flooded with complaints over difficulties in obtaining the visas.

A Canadian delegate noted that there are six times the number of Americans traveling to Canada as service technicians than Canadians coming to the United States. He suggested that the matter possibly could be resolved in the negotiations for a free trade arrangement. An American suggested the negotiations might be delayed, and it would be better resolved through separate legislation if necessary.

Canadian Provincial Liquor Board Practices

The United States has registered complaints about the manner in which liquor is regulated in Canada, particularly restrictions on the distribution and marketing of American spirits, certain listing practices, and discriminatory price mark-up practices, which frequently involve a three-tier escalating mark-up system under which locally produced products are marked up the least and imports the highest (as much as sixty-four percent difference).

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A Canadian explained that regulation of the distribution and marketing of wine and beer is a provincial authority. Some domestic Canadian producers share the American complaints. An effort is being made to reduce the discriminatory mark-up practices. He noted that Canada consumes three million of the six million bottles of American wine that is exported. American beer is being produced in Canada, and $158 million worth of Canadian beer is exported to the United States, while $8 million worth of U.S. beer is brought into Canada.

An American said that the provincial restrictions are discriminatory, constitute trade barriers, and are inconsistent with Canada's GATT commitments—such as the practice in Quebec of permitting domestic wines to be sold in grocery stores but not imported wines. He suggested this matter will be part of the trade negotiations, but will complicate those negotiations because the United States will have to negotiate with each of the ten provinces.

A Canadian noted that every wine producing country has a surplus of wine, and that the large U.S. market would swamp the Canadian beer industry if free trade prevailed. The Canadian industry is divided into 263 small breweries, whereas the American industry is dominated by a few large breweries. Another Canadian pointed out that in the United States a treaty can bind the states, but not so the provinces in Canada, and each will have to specifically agree to many aspects of a free trade arrangement. The federal government does have some leverage through its authority over tariffs. Maybe what will be needed in wine and beer trade will be a transitional phase during which to rationalize the Canadian industry. In fact, maybe the issue can be dealt with only in the context of a free trade arrangement, so the provinces can be shown that their overall interests lay with rationalizing this sector.

Canadian Pharmaceutical Patent Law

A U.S. member explained that Canada is the only major industrialized country with a compulsory licensing system aimed at a single industry—in this case pharmaceuticals—and that the artificially low royalty of four percent effectively removes patent protection for drug products researched and developed in Canada.

A Canadian explained that the government had the matter under review and that remedial legislation was expected. The problem is resolving the differences between the (high) cost of drugs and the protection of intellectual property. There is also the matter of firms being good corporate citizens, as in one year foreign pharmaceutical companies did not declare $80 million in profit (because of the high mark-up of chemical imports through transfer pricing).

An American suggested that the two countries should accord each other national treatment and expect all companies to be good corporate citizens.

Apples

A U.S. delegate presented the current difficulties in trade in apples. Besides the value of the dollar, Canada effectively closes the border through non-tariff barriers, such as requiring a standard sized containeer which is not really a standard size and requir-

ing labelling of the product in English and in French and the weight in metric.

A Canadian explained that such practices were under provincial authority and were also prevalent in the area of disease control.

Softwood Lumber

The discussion of trade in softwood lumber was commenced by several U.S. participants presenting American complaints against practices in the Canadian industry. The U.S. housing industry was depressed in the early 1980's, along with the rest of the U.S. economy, but when the construction sector picked back up in the mid-1980's, the U.S. lumber industry did not benefit because Canadian production took over the renewed demand. Canadian sales have undercut American sales because of the value of the U.S. dollar, subsidized freight rates, and low interest loans and grants to the industry. The U.S. industry is suffering from the closing of mills and declining wages. The underlying problem is overproduction, not just in the United States and Canada, but worldwide, just as in oil. The U.S. industry cannot meet the entire domestic demand, so the availability of Canadian supply is appreciated, but not if it is subsidized and hurts the U.S. industry. Canada obviously shares in the boom and bust of the U.S. industry.

A Canadian responded by recalling that the 1983 countervailing duty investigation had resulted in an International Trade Commission decision that Canadian stumpage pricing practices were not a subsidy. The ITC had determined that Canadian mills were more productive even though wage rates were higher. He said the Canadian advantage was in the exchange rate and in transportation charges. The Jones Act makes transportation expensive for the U.S. industry. He noted that during the recent recovery U.S. production had risen 30% and Canadian production 32%, the number of employees in the industry had risen by 15,000 in the United States but only a few thousand in Canada, and there were 200 new mills in the United States but only 50 in Canada. Unemployment in the industry in British Columbia is just as high as in the United States, and there is little profit in the industry on either side of the border.

An American suggested that the Canadian stumpage system assures the Canadian producer a profit, but a Canadian member disputed that assertion. Another American suggested that the answer to overproduction might be the United States blocking imports at the border, and another that maybe voluntary restraints would be necessary. It was noted that any unilateral United States action would "bring down the Canadian industry", and a Canadian inquired why the United States would do that when the only thing the Canadian industry had done wrong was to be more competitive.

An American member explained the background and current status of a U.S. legislative proposal—of concern to Canada because of its potential impact on Canadian lumber—to define when and how the treatment of a raw material in another country of origin results in injury to a U.S. industry. In the 1930's tariffs were the principal means of controlling imports; as tariffs have been reduced, non-tariff barriers have taken their place as the major hin-

drance to trade. Under GATT we have agreed to eliminate injurious subsidies. U.S. law says any bounty or grant to an industry is actionable, but the principle has been eroded in practice over time, and the proposed legislation would restore this principle in the area of natural resource subsidy. The legislation was developed prior to softwood lumber arising as an issue in U.S./Canadian trade relations, so it is not aimed specifically at Canada. The legislation passed the House of Representatives in 1984 and is likely to be part of the omnibus trade bill that will be considered in the House in May of this year. The proposal has been modified pursuant to a visit by Members of the House to British Columbia last year. The legislation provides that any below market priced raw material that is part of a finished product is a subsidy and can be offset by a tariff at the border. It obviously would be appropriate for other countries to adopt similar mirror legislation. The goal of the legislation is to develop an objective standard for determining subsidy in raw material pricing.

Another American reported that thirty-eight Senators spoke on the floor of the Senate recently expressing concern about trade in softwood lumber. Georgia is the number two timber producing state, but half the lumber sold there today is Canadian, and twenty percent of the mills have closed. The question is will the restraint be voluntary or involuntary. Another American expressed the same view that some action to deal with the softwood lumber problem is unavoidable.

A Canadian responded that the provinces are against voluntary restraints on trade in softwood lumber and against changing the stumpage system. It is seen by many Canadians as a matter of national sovereignty, of the right of Canada to determine its own economic policies. There are support programs because in some areas of the country timber is the only possible economic activity. This issue is developing into a test of the concept of a Canadian-American free trade arrangement and could block the negotiations. The ITC never takes into consideration in its deliberations a comparison of U.S. subsidies with the alleged foreign subsidies. The proposed U.S. legislative changes do not allow Canada a role in determining what is a subsidy.

An American said the problem is that neither side will give up any sovereignty in determining what a subsidy is, so maybe the solution would be to submit the matter to arbitration. A Canadian suggested that one solution would be a managed trade arrangement for lumber, such as we have for automobiles.

A U.S. delegate expressed the view that stumpage probably is a subsidy, but not a very important one in the broader scheme, so a countervailing duty would probably not affect timber trade. One of his colleagues suggested that we must learn to live by rules of law and principles and that we should not attempt to rig markets through negotiated arrangements. We must steer away from cartelization and toward free and open markets—look at what OPEC has done.

A Canadian reported that it is projected that the Canadian percentage of the U.S. market will decline from 33.6% to 32.8% and that other export markets will pick up, so maybe the situation is beginning to turn around. He said Canada is an open market and

is currently the fastest growing market for U.S. exports, growing some 20% in 1985.

An American delegate proposed that the United States and Canada should both stop the exportation of logs and cants, and only export processed logs. A Canadian agreed that was a possibility, and another Canadian pointed out that Canada does not, in general, export round logs, but has exported more than usual in the past several years because of the declining export market for sawn lumber.

A Canadian inquired whether the negotiations for a Canada/U.S. free trade arrangement for the entire scope of our trading relations really could be held up over the problems in this one sector. An American said that the value of the dollar was probably some 80% of the cause of the distortion in softwood lumber trade. The final note was that whatever is done to deal with the softwood lumber problem should be done by Canada and the United States together.

COMMITTEE II—ENERGY AND DEFENSE ISSUES

Committee II was co-chaired by Barbara Sparrow of the Canadian delegation and by James McClure of the United States delegation. The other Canadian delegates serving on Committee II included Senators James Balfour, Henry Hicks, and H.A. Olson and Members of the House of Commons Tom Hockin and Pauline Jewett. American members of the Committee included Senators Ted Stevens and Dennis DeConcini and Representatives Dante Fascell, Lee Hamilton, David O'B. Martin, and Jim Kolbe. In addition to those members of Committee II, Lloyd Axworthy of the Canadian House of Commons and Senator Arlen Specter and Representative Bill Richardson of the U.S. Congress also participated in the committee's deliberations.

ENERGY

NATURAL GAS DEREGULATION

An American participant opened the discussion by noting that further progress is being made on the deregulation of natural gas since the initial deregulation of "new" gas as of January 1, 1985, under the provisions of the Natural Gas Policy Act of 1978 (NGPA). At that time, price controls were removed from about one-half of U.S. natural gas supplies. Under the NGPA additional natural gas is scheduled for price deregulation on July 1, 1987. Nevertheless, the speaker noted, under current law approximately forty percent of U.S. natural gas production will remain under price controls. Secretary of Energy John Herrington announced that the Administration continues to support deregulation of all categories of natural gas (there are more than twenty classifications of gas in three major categories under the NGPA). In his announcement, the Secretary also stated that the Administration intends to propose natural gas decontrol legislation to Congress. Two major gas deregulation bills already have been introduced in the Congress. The Senate bill, S. 1302, was introduced by Senator Nickles. The House bill, H.R. 2734, introduced by Representatives Richardson and Dannemeyer, essentially incorporates all of the Senate bill's provisions and, in addition, proposes decontrolling the price of natural gas from infill wells. Both bills would remove controls on the wellhead price of some "old" gas. A bill to accelerate the deregulation process, similar to H.R. 2734, came within one vote of passage in the U.S. House of Representatives last year, which seems to indicate a mood in Congress of growing willingness for further gas deregulation.

The American speaker continued his presentation by noting that a surplus of natural gas in Canada and the pressure of declining world energy prices have apparently led to a change in Canada's

pricing policy on its natural gas exports to make them more price competitive and to help recapture the portion of Canada's share of the U.S. market which had been lost in recent years. Canada currently provides about six percent of U.S. natural gas needs. It is estimated that Canada could provide ten percent of U.S. gas needs. In fact, in late 1984 Canada began to move away from its previous policy of charging a high, uniform border price for gas exports to the United States. In November of 1984, Canada allowed its gas exporters to negotiate prices directly with U.S. customers, subject to a floor pegged to the Toronto City Gate price. More recently, on October 30, 1985, Canadian Energy Minister Pat Carney announced an agreement in principle he had reached with Canada's natural gas producing provinces to eliminate controversial export restrictions, such as the Toronto City price floor and volume limits on short term gas exports. In Canada's domestic natural gas markets, prices will be frozen during a transition period which would begin on November 1, 1986. During that transition period, customers whose contracts expire will be free to negotiate new contracts directly with producers at competitive prices. After full domestic gas deregulation takes effect in Canada, prices could fall to whatever level producers are willing to accept. At that point Canadian gas producers willing to export to the U.S. at a price lower than the price available to Canadian customers could do so if those producers are willing to reduce their domestic prices accordingly.

A Canadian participant inquired of the American members whether so-called "old" and "new" gas is still blended in U.S. natural-gas markets to "average out" the price paid by U.S. users. A U.S. member responded that the policy continues in the United States, but that in practice the averaging does not result in a single uniform price per thousand cubic feet (mcf) of gas. There is still some variation in the price/mcf between geographic areas in the United States. The U.S. speaker further pointed out that Canada's increasing willingness to let its natural gas exports become more price competitive has put greater pressure on U.S. gas producers. Another U.S. participant added that energy is very important to many states which rely on revenues raised from the energy sector. The U.S. speaker continued by noting that independent natural gas producers in at least some of those states are concerned about competition from Canadian gas exports. For example, producers in New Mexico, distressed by an agreement between the El Paso Natural Gas Pipeline Company and Canadian producers for the U.S. pipeline company to purchase Canadian gas at the rate of some 400 mcf/day, are pressing their Congressional delegation for legislation to restrict imports of Canadian natural gas.

A U.S. member agreed with the opening U.S. speaker that deregulation of the natural gas market is proceeding in the United States, although at a somewhat slower pace than in Canada. Part of the cause for the slower pace is a result of the controversy which has surrounded the very complicated orders issued by the Federal Energy Regulatory Commission (FERC) in an attempt to continue deregulation in a non-discriminatory manner during a period of declining world energy prices.

IMPLICATION OF DECLINE IN OIL PRICES

A Canadian member commenced the discussion by pointing out that declining oil prices are an important factor in natural gas pricing because residual fuel oil competes directly with natural gas. An American participant agreed and elaborated by noting that the market price for natural gas is primarily influenced by the price for industrial users and utilities, users who are often able to shift their operations to using residual oil as a substitute for gas.

A Canadian participant expressed concern about the implications of declining prices for oil, and other conventional energy sources as well, for longer-term security for Canada and the United States. He argued that falling energy prices had put many important exploration and development projects for non-traditional energy technologies on hold. Those projects for newer technologies such as required in off-shore arctic oil and gas production, oil extraction from oil shale and tar sands, and synthetic fuels development are grinding down to a halt because of their decreasing relative cost competitiveness in the face of declining world prices for oil and other fossil fuels. If that research and development effort is not continued to fruition, Canada and the United States will not be able to utilize those alternative energy sources at the next period of high prices for conventional energy resources.

A member of the U.S. delegation said that falling world oil prices have encouraged many in the Congress to consider legislation to impose a fee on imported oil, primarily as a means of raising revenue to be applied to the efforts under the so-called Gramm-Rudman-Hollings law to reduce the federal budget deficits. Although the American speaker viewed the time to be ripe for discussion of this alternative, in light of the oil glut and accompanying depressed prices, he expressed skepticism that legislation could be passed before the end of the 99th Congress. It was pointed out by another U.S. participant that an oil import fee is unpopular in the Northeast, a region of the United States which imports a significant amount of oil. However, he felt that a legislative compromise might be worked out with some combination of an import fee and some increase in the federal gasoline tax. That would spread the burden somewhat because other regions, such as the Southwest, would bear a proportionately greater share of the weight of a gasoline tax increase because distances traveled per capita, and therefore gasoline usage, are greater on the average in those regions than in the Northeast. Two American delegates agreed that now is the best time politically, in view of falling oil prices, to pass an oil import fee or gasoline tax increase, but they noted that such levies would not raise that much revenue compared to the size of the federal deficit against which they would be applied. Another U.S. participant expressed the opinion that any proposal to impose an oil import fee, even in a period of declining prices, would provoke pressures for exemptions for various affected groups, such as the petrochemical industry. Such a prospect reminded him of the problems which arose in setting up exemptions and priorities for petroleum users of various classes under the old entitlements program in force during the oil shortages of the mid-1970's.

A member of the Canadian delegation argued that our countries cannot afford to rely solely on private industry, no matter how big, to develop new or difficult energy extraction and transportation technologies, such as those involved in the stalled Alaskan Natural Gas Transportation System (ANGTS). Referring back to earlier remarks about longer range energy security needs, he asked should not Canada and the United States be doing longer-term planning and investment in developing improved energy processes and systems which will be needed further down the line? Two American delegates agreed that such preparations should be undertaken. However, they pessimistically predicted that U.S. policymakers probably will not act on such matters until forced to do so by an impending energy crisis.

A participant from Canada said the oil price decline is temporary and is attributable, at least in part, to action by the Saudis intended to hold down oil prices as a means of punishing OPEC members who have undercut OPEC agreed price levels and production quotas to increase their revenues by discount sales at the expense of more disciplined OPEC members. An American delegate agreed that the Saudis were taking such action but their motive for keeping prices low may be to bring to a stop costly high technology energy source development. He estimated that, in order to succeed in such an effort, the Saudis would have to hold world oil prices to perhaps as low as five or six dollars per barrel for approximately two years. The results are beginning to take effect, as already a degree of disinvestment is occurring in the oil industry in the United States. A Canadian member said the same trend of disinvestment is taking shape in the Province of Alberta. A U.S. participant noted that once such a disinvestment trend goes on for a long enough period, U.S. wells the production costs of which are far enough above a lower world price level will be capped. The laws of a number of states require that once a decision to shut off a well's production is made, the capping must be done using a procedure which makes the capping virtually irreversible (e.g. pouring concrete into the well casings).

A U.S. delegate expressed concern from a consumer's point of view about potential efforts to "stabilize" energy prices at higher levels. A Canadian participant responded that without some such effort, we will face disruptive cycles of very low prices alternating with very high prices as cyclical periods of energy gluts and shortages, respectively, alternate. Some participants wondered how the Saudis could have such influence as to virtually "run" the oil market. A Canadian member replied that Saudi market influence stemmed from their being able to afford to produce oil at a lower price for a longer time than anyone else.

Returning to the subject of a possible U.S. oil import fee, a Canadian delegate asked if it would be possible to exempt oil imported from Canada from such an import fee. Two American members believe it premature for Canadians to be too concerned, because they do not foresee imposition of an oil import fee this year. A third American said it is possible such a fee might be adopted late in the year, when the Gramm-Rudman-Hollings deficit reduction "crunch" occurs, as a revenue raising/deficit reduction measure. Another American participant interjected that the amount of reve-

nues which an oil import fee could bring in would be little help in bringing the deficit down, especially if the House-passed version of the tax reform bill were enacted, because he estimated that enactment of that legislation would add as much as $130 billion to the deficit.

A U.S. delegate noted that the Congress would very likely consider exempting Canadian and Mexican oil imported into the United States from a potential U.S. import fee. He also pointed out that an oil import fee would not, of course, cover imports of Canadian natural gas, which are by far the largest part of Canadian energy exports to the United States. Neither would it apply to the steadily growing Canadian electricity exports to the U.S.

An American member made the point that granting an exemption from a U.S. import fee to Canadian oil would encourage non-exempt suppliers to seek ways to transship their oil destined for the United States through Canada in an effort to evade a U.S. import fee. Another U.S. delegate asked the Canadian members just how onerous the effect would be on Canadian oil exporters if application of a U.S. import fee to Canadian oil proved unavoidable. A Canadian participant responded that a U.S. import fee on oil would have serious consequences for Canadian oil producers' exports to the United States. He argued that they would be forced to cut back on production. Canada currently exports approximately 600,000 barrels of oil/day to the United States. An American noted, however, that Canadian oil would still have some competitive advantage compared to U.S. oil because of the high U.S. excess profits tax on domestic U.S. oil production.

URANIUM

A U.S. delegate commenced the discussion of this issue by asserting that the U.S. uranium industry is badly depressed and suffering from Canadian trade practices. He argued that under domestic requirements in force in Canada, Canadian uranium is sold under long-term contracts to Canadian users (utilities) for $60/pound. Canada's export policy is quite different. Under that policy, the American continued, Canada sells, or in fact "dumps", its uranium in the U.S. market at a price of $15/pound.

The only "good news" the U.S. speaker sees for the industry was Energy Secretary John Herrington's determination on September 26, 1985 that the U.S. uranium mining and milling industry was not viable during calendar year 1984. The determination was based on a required annual study which found that uranium production in 1984 was the lowest since the mid-1950's; there were 50 existing mines, down from 362 in 1979; 3,400 workers were employed, down from 13,700 in 1981; and industry earnings had been negative for the past five years. Under existing law, once the Secretary makes a determination of non-viability of the industry, he may invoke one of several trade restriction provisions of current statutes: (1) Section 201 of the Trade Act of 1974, granting temporary relief to domestic industries seriously injured or threatened with serious injury by increased imports; (2) Section 232 of the Trade Expansion Act of 1962, providing relief when imports are found threatening to the national security; or (3) Section 161v of the Atomic Energy Act,

restricting enrichment by the Department of Energy (DOE) of foreign uranium for use in U.S. reactors. Of course, in light of all of these factors, the U.S. uranium industry is energetically lobbying for protectionist legislation. The American member regretted the growth of such protectionist sentiment, but he believes that what amounts to a Canadian policy permitting dumping of Canadian uranium on the U.S. market is unfair to the U.S. industry.

The U.S. delegate continued by noting that the U.S. Administration has repeatedly objected to Canada's uranium trade practices, especially the Canadian policy on uranium processing and upgrading, which deprives U.S. processors of a fair opportunity to compete in that aspect of the industry. Canadian policy requires that, to the maximum extent possible, Canadian uranium must be upgraded prior to being exported. This policy has reportedly been more energetically enforced since the opening in 1983 of the El Dorado conversion plant in Canada. The Government of Canada has stated that the only exceptions to this requirement for Canadian processing of Canadian uranium exports would be granted for term conversion contracts with non-Canadian converters in effect before December 31, 1980, and the exceptions would end for those contracts when they expire. Thus, U.S. uranium converters have no opportunity to compete in bidding for the right to upgrade Canadian uranium exports to the U.S..

A Canadian participant recalled a similar policy and competitive problems for the U.S. potash industry after the development of Canadian potash exports with higher grade potash deposits from Saskatchewan. He sees the situation with respect to uranium now as similar to the earlier potash market situation. The Canadian delegate asserted that the real problem for the U.S. uranium mining industry is the significant comparative market advantage enjoyed by Canadian exports because Canadian uranium is higher grade and much cheaper to produce than U.S. uranium. He concluded by expressing his personal view that Canada's restrictive uranium conversion policy is a clear protectionist measure for the benefit of the El Dorado conversion plant. An American member suggested that it is sometimes difficult to distinguish a national industrial development policy from an unfair trade practice.

WESTERN ELECTRICITY TRADE

A U.S. participant briefly raised the issue of Canadian hydroelectric exports to U.S. markets in California. British Columbia producers of hydroelectric power have increased their power production in recent years, as new facilities have come on line, to a point where they have a significant surplus of power over their domestic needs for the foreseeable future. Their need to sell excess electric power in the California market has brought the British Columbia hydroelectric power producers into conflict with American producers subject to the Bonneville Power Administration. British Columbia producers are hampered in the competition by the fact that the Bonneville Power Administration owns transmission lines which British Columbia electricity exports would have to use to reach the California markets.

The American delegate suggested that it would be useful to try to get an agreement between the Bonneville and British Columbia authorities under which the Bonneville producers would supply electricity to the California market during the short-term, until the current temporary electrical power glut ends. British Columbia producers would then provide electricity for the longer-term power needs of California and the Pacific Northwest which will result from projected economic growth in the area, including, in particular, in the aluminum industry.

OTHER ISSUES

Before moving on to a discussion of defense and multilateral issues, the committee briefly exchanged views on expectations regarding the relative fluctuations of the value of the U.S. and Candian dollars. They also briefly touched upon problems in international agricultural commodity trade, the European Economic Community (EEC) agricultural trade policies, and the trade implications of farm subsidies. In each instance, the brief discussions were spillovers from the direct, primary discussions of these trade related topics in Committee I.

DEFENSE

ARMS CONTROL ISSUES

A U.S. delegate opened the discussion with a broad assessment of the status of the various arms control negotiations. It was contended that there are both encouraging and discouraging signs, and one should be neither optimistic nor pessimistic about the prospects of substantial progress toward an arms control agreement. The delegate also suggested at the outset of the discussion that Canada and the United States had a broad sense of agreement on most arms control issues and that the United States continued to value, in particular, the important work being done in Canada on verification research.

The delegate said that there had been a reasonably good effort in the Geneva arms control talks, but that there had been too much public posturing by both sides. To succeed, the negotiators simply have to get down to serious work and deemphasize the public relations game. There was a basis for serious negotiations in both the START and INF negotiations, and the January 1986 proposals of General Secretary Gorbachev had important elements which the United States had not rejected out of hand.

It was felt there is particularly a chance of moving forward in the INF talks based on the Gorbachev proposals and the U.S. reply. Even though the Gorbachev proposals only talked about elimination of the missiles in Europe and not globally, it was encouraging that the Soviets did not make a solid linkage between progress in the INF talks and stopping the Strategic Defense Initiative (SDI) which, it was argued, could not realistically be done because science and industry cannot simply be stopped. The verification elements of the Gorbachev proposals of January were also felt to be important.

It was noted that the first summit between General Secretary Gorbachev and President Reagan held last November in Geneva had produced some useful statements relating to negotiations on banning chemical weapons, accelerating the Geneva arms control talks and a statement to the effect that the superpowers cannot fight and cannot win a nuclear war. These actions provided impetus for arms control progress even though the subsequent round of talks had not produced any breakthrough, and a 1986 Reagan-Gorbachev Summit in the United States, previously agreed to in principle, had not been scheduled. It was suggested that it could be a good sign if the parties seek a more substantive summit the second time around, and it may be worth a delay in a summit to achieve a breakthrough in the talks. This would depend, however, on the willingness of the parties to do the hard work necessary to achieve progress.

The delegate indicated that part of the problem for both parties to the negotiations was that elements in both the Soviet and U.S. governments viewed the arms control process as an "idiot's delight," and had ideological views which led to strong opposition to arms control talks. This factor made it even more important for the parties to push ahead in the Geneva talks to maintain momentum created by the first summit.

Mention was also made briefly of other arms control fora, including the Conference on Confidence and Security-Building Measures and Disarmament in Europe (CDE) in Stockholm and the Mutual and Balanced Force Reduction Negotiations (MBFR) in Vienna. In the CDE talks, it was considered crucial for the West to "hang tough" for substantive confidence building measures which can improve security throughout Europe. Regarding the MBFR talks, it was felt to be encouraging that after more than a decade, a new conceptual framework was put forward late last year, and the talks had a chance to move off the current stalemate. The gaps in numbers of troops and how they were counted had simply been so enormous that a new tack was essential. The new proposal which calls, in its first phase, for troop reductions on both sides and no increases in troops for three years could provide a real impetus in these long languishing talks.

The issue of a chemical weapons ban was also mentioned. Although an effort in the House of Representatives to stop production of chemical weapons lost in a close vote, work must continue in Geneva to try to reach some agreement with a mandatory inspection regime. It was felt we have a situation where no one likes chemical weapons, but the genie is out of the bottle, creating potentially serious consequences in several conflict zones around the world.

The American delegate closed these opening comments by mentioning the recent resolution calling for comprehensive test ban (CTB) treaty negotiations which passed the House of Representatives in February, 1986 (H.J. Res. 3). The delegate expressed the view that although this was a contentious issue, the United States does not now really support such negotiations even though five successive administrations have expressed support for them. U.S. words used to favor such negotiations though U.S. actions have not always supported U.S. rhetoric. Now, it was suggested, the United

States was more vocal in opposition, and United States Secretary of Defense Weinberger had said that as long as there are nuclear weapons, the United States must test. The House resolution was intended to follow up on 1984 language of the Senate supporting negotiations and was pushed to a vote by Members who felt the idea of a CTB treaty was going nowhere and wanted to promote negotiations. The Reagan administration's viewpoint that reductions in armaments must necessarily precede negotiations for a CTB was noted, but the delegate felt that because of the strides which had been made, particularly on verification, there were compelling strategic and military, as well as political, reasons for weaving CTB talks into the current arms control process.

A Canadian participant expressed personal agreement with the American viewpoint just presented and found it hopeful except for the issue of CTB treaty negotiations. Political symbolism continues to be an important factor in the arms control process. Although there were some differences among Canada's parties on certain arms control issues, it was felt there was a strong consensus in Canada on the twin pillars of stable deterrence and pursuit of arms control agreements. Canadians had been worried about the five year drought in U.S.-Soviet summits, and many were almost euphoric about the November 1985 Gorbachev-Reagan Summit. Many Canadians also felt the January 1986, Gorbachev arms control proposals were positive and found the timetable for arms reductions one of their most interesting aspects. The 3-year timetable for INF reductions suggested by the United States in its response was also useful, but many Canadians liked the idea of a timetable for long-term or overall arms reductions.

This Canadian delegate went on to say that the biggest Canadian concern over the last year was over continued adherence to the ABM treaty and a possible new United States interpretation of that treaty. There was relief among many Canadians when the United States announced that it would continue to adhere to the old interpretation of the treaty, which had been supported for some 13 years, even though there is unease when they hear U.S. Department of Defense officials say that the United States intends to adhere to the ABM treaty only for the time being. Canadians have a pervasive feeling that existing treaties should be maintained.

The Canadian speaker found the comments about possible CTB treaty negotiations discouraging. While approving of the resolution passed by the House of Representatives because it was a form of pressure on the President of the United States, there was a strong feeling among some Canadians that the current U.S. Administration does not want such negotiations now and that it will go from excuse to excuse to avoid them.

This Canadian participant concluded by saying that public opinion polls in Canada show strong support for a freeze on nuclear weapon development and for a CTB treaty. They also show only limited support for SDI. Finally, it was noted there was a residual feeling among many Canadians that Canada should not be involved in the testing of Cruise missiles as it is currently.

An American participant suggested that the Geneva negotiations were on the right course, that an INF agreement was doable during the next three years while President Reagan was in office if

the Soviets negotiated seriously. Therefore, now is precisely the wrong time for the United States to undertake any actions which divert energies from Geneva or to rush in with any proposals which make unilateral concessions to the Soviets. In this regard, this delegate mentioned the February 1986 resolution passed by the House of Representatives which called for the CTB treaty negotiations and which called for the submission to the Senate of the unratified Threshold Test Ban Treaty and Peaceful Nuclear Explosion Treaty.

It was suggested that, because the situation in the Soviet Union is in flux and the Soviet economy was having serious problems, the United States must act cautiously and not divert attention from the Geneva arms control talks. In this view, the Gorbachev leadership was new and still learning. Gorbachev himself was out of the agriculture arena and did not have competence in defense or foreign policy although he was an astute politician. The pressures on Gorbachev were to try to modernize the economy, but there was no hope of being able to utilize 21st Century technology without changing the system. In this situation, the United States must proceed carefully because it was a sensitive period and important not to make any false step to placate the Soviets.

This American delegate concluded that because of widely admitted Soviet violations of the ABM treaty, it was necessary for the United States to tell the Soviets that the United States could also change its views on the ABM treaty if the Soviets did. Mention was made of the modernized ABM system being deployed around Moscow.

A Canadian delegate answered this last point by saying that the attitude of Canadians was evenhanded and Canadians had deep concerns about recent Soviet military and strategic programs and deployments.

Another American participant suggested that the arms control negotiations were at a critical crossroads and exceedingly difficult issues were being debated in the Geneva talks. Our best wishes should go to our negotiators, it was said, and we should not interject other issues, such as the CTB treaty resolution, into the Geneva scene. There may be political symbolism in such a move for people back home, but it is a sad commentary that we have to act like that.

It was suggested by another American delegate that people who urge arms control negotiations so strongly consider carefully the entire treaty negotiating process. It can be argued that the world has been more secure in times of no arms control negotiations and that negotiations cannot be viewed as an end in themselves. It was felt the book entitled "The Treaty Trap" gives a good look at some of the pitfalls in a negotiating process. This American delegate also addressed two Canadian comments. In reply to a Canadian delegate's comment in support of arms reduction timetables, this delegate said that timetables can definitely produce pitfalls and that arms control progress is not assured through artificial or arbitrary timetables. Second, another Canadian delegate had expressed strong support for maintaining the past interpretation of the ABM treaty. This delegate questioned why people were so fixated on the narrow past interpretation of the ABM treaty in view of the numerous Soviet violations and extensive non-compliance record.

Two American delegates then added quick comments relating to the United States-Soviet arms control talks. One participant said that it was difficult to negotiate with the Soviets because they constantly shift their priorities in the arms control talks, tend not to give details of their proposals in the talks themselves, and tend to make the same merely general proposals in the negotiations as they do in the press. Another American suggested that while it can be frustrating to negotiate with the Soviets, it is good for the United States to meet with General Secretary Gorbachev on arms control issues because it forces the General Secretary and the Soviet leadership to focus on arms control issues and learn the issues. The United States can benefit, it was suggested, by pressing these issues with the Soviets.

The comments about General Secretary Gorbachev made by several American delegates prompted a Canadian participant to give another perspective on the General Secretary. In the summer of 1983, Gorbachev, then a new member of the Politburo, visited Canada with two missions, one on arms control and one on agriculture (Gorbachev was in charge of agriculture at the time). The Canadian participant felt that all Canadians who came into contact with Gorbachev were impressed by his seriousness, his knowledge of the subjects on which he spoke, and his competence.

Two themes were discussed at the end of the discussion on arms control issues. First, an American delegate stressed that the United States and the Soviets were into a lengthy arms control process in Geneva, both had an interest in staying there, and there was hope that progress could occur. The United States was even purchasing a permanent building in Geneva for its arms control delegation and, on some issues, the United States and Soviets were not at all far apart and progress was within reach. It was also stated that, precisely because Gorbachev had problems at home, he needed success at Geneva. So, it is likely that there can be a series of agreements over time coming out of Geneva.

Several other delegates questioned the arms control public relations war and who was winning it. One Canadian and one American delegate felt that Gorbachev was winning the public relations game but another American delegate stressed that the United States was not losing the public relations war if one considered that Mr. Gorbachev seems increasingly obliged to put on a personal, domestic public relations show in the U.S.S.R. to play to Soviet public opinion.

STRATEGIC DEFENSE INITIATIVE (SDI)

A U.S. participant began by asserting that the President's emphasis on SDI research has been a good thing from the standpoint of narrowing the research gap in this area between the United States and the U.S.S.R. In addition, it has apparently been useful in making the Soviets more willing to resume arms reduction talks.

A Canadian delegate stated that Canadian public opinion in general was probably opposed to SDI. The speaker noted that the reinterpretation of the application of the ABM Treaty to SDI by the U.S. State Department Legal Advisor had initially caused consternation in Canada. That distress was relieved by clarifications by

high level U.S. Government officials that the United States would, in its SDI activities, voluntarily follow the previous, more restrictive view of the ABM Treaty's requirements. The Canadian member concluded by suggesting that even the Canadian defense and aerospace industry was not too interested in SDI because they believe that most aspects of the research program will be so highly classified that Canadian firms would only be eligible to bid on a few small contracts.

Another participant from Canada stated that the Government of Canada agrees that the United States should undertake SDI research. However, the Canadian Government does have some concerns about the continued viability of the ABM Treaty in the future if deployment of an SDI system does prove feasible. Canada has decided not to participate in the U.S. SDI research program on a government-to-government basis. The Canadian Government believes its scarce defense resources would be better spent on improving Canada's conventional defense posture to make it a more valuable participant in NORAD and NATO, rather than making what could only be a relatively tiny Canadian Government contribution to the large overall SDI research effort. The Canadian speaker pointed out, of course, that Canadian private firms are free to seek participation as contractors in SDI research if they wish.

The Canadian participant then questioned U.S. delegates about precisely what kind of focus the SDI research program has. He asserted that it appears the only really valuable option is to focus on a system that attacks offensive strategic weapons during the "boost phase" of their flight.

An American member replied that the U.S. research program is looking at all possible aspects of SDI. In addition to assuring a thorough exploration of technology options, that kind of an approach makes for a good negotiating position in the START negotiations. The U.S. delegate then expressed concern about developments in the Soviet SDI effort. His concern was particularly focused on Soviet construction of the Krasnoyarsk radar. It is a new and important type of radar for a strategic defense battle management system.

Looking at SDI from the broader view, while the U.S. research program is ahead of the Soviets in some areas, in others the Soviet effort is "light years" ahead of the U.S. However, the Soviet SDI research effort is burdened by the very closed nature of Soviet society and the rigid compartmentalization of knowledge and information, which severely hampers the kind of intellectual "cross fertilization" which maximizes creative ingenuity. That flaw may ultimately cause the U.S.S.R.'s efforts to fall behind the U.S. research programs. It is a dilemma for the Soviet leadership because to open up its climate of intellectual exchange could ultimately threaten the control of the state over Soviet society.

Another U.S. participant expressed his concern that many people in the United States and the Western democracies seem to focus almost exclusively on the U.S. SDI research program and worry about the ABM Treaty's application to it while virtually ignoring the U.S.S.R.'s clear and open violation of the ABM Treaty. He identified as Soviet violations the development and deployment of an antiballistic missile battle management system radar and develop-

ment of interceptor missiles. Those efforts are expanding the existing Moscow ABM system toward a nationwide Soviet ABM system. The American speaker warned that if those violations are not stopped, they will seriously destabilize the superpowers' nuclear arms relationship.

A Canadian speaker noted, on a related issue, that he disagreed with the position of the Canadian Government and the policy of the Liberal Party Caucus that Canada not participate on a government-to-government basis in the U.S. SDI research program. He thinks Canada should participate. He recalled the World War II period example of Canada's role in the development of radar. While asserting that the Canadian Government should take part in the SDI research effort, he did voice skepticism about the potential for a successful outcome resulting in an effective strategic defense system against ICBM's because he estimated that an attacker only needs to have about five percent of its warheads get through a strategic defense shield to cause disastrously unacceptable levels of damage.

Another Canadian participant explained that the Liberal Party Caucus in the Canadian Parliament is opposed to Canadian participation in the SDI research effort, in part, because a successful SDI system would result in a need for major Canadian commitments to a ground-based, active air defense against attacks by air-breathing weapons—cruise missiles and manned bombers. He argued that the U.S.S.R. would be forced to increase its reliance on such air-breathing weapons systems if a U.S. SDI system proved successful at undercutting the effectiveness of the Soviet ballistic missile threat.

An American delegate countered that need for defenses against attacks by Soviet cruise missiles and bombers is basically independent of the question of strategic defense against ICBM's. Another U.S. member stated that he was unaware of any U.S. plans to use Canadian territory as a base for an active defense system against Soviet attacks mounted with air-breathing weapons. The previous Canadian speaker reasserted the view that the logical corollary of a successful ballistic missile defense system is increased Soviet reliance on air-breathing, offensive nuclear weapons systems requiring greater Canadian commitments to air defense against that threat.

A U.S. participant argued that there should be direct government-to-government cooperation among the United States and our Western allies on SDI research because of the potential scientific benefits which could result and also because such a united effort would be useful in strengthening our bargaining position in strategic arms negotiations with the U.S.S.R. Another American delegate concluded the discussions on the topic of SDI by reiterating his concern that the United States is losing the "public relations war" with the U.S.S.R. among our friends who continue to overlook serious Soviet violations of the ABM treaty and focus only on the potential for small violations of the ABM treaty by the United States.

NORAD RENEWAL AND CANADIAN ROLE IN NORTH AMERICAN DEFENSE

The focal point of U.S.-Canadian defense cooperation is the North American Aerospace Defense Command (NORAD) at Colorado Springs, Colorado, which was established in 1958 to permit our

two countries to deal more effectively with the then-mounting Soviet bomber threat to the continent. Its basic functions are to provide early warning of any air attack from the north, to enable the U.S. and Canadian operational forces to respond rapidly and effectively to any such aggression, and, as a consequence of these enhanced capabilities, to deter the Soviets from launching any attack on North America. Surveillance, response, and deterrence remain NORAD's essential responsibiiities. In the view of some, recent Soviet military deployments will necessitate adaptations in NORAD's structure and military posture.

The current five-year NORAD agreement expires in May of this year. Delegates supported renewal and felt there would be a five-year extension instead of a longer period, but several questions were posed.

A Canadian delegate expressed concern that Canada's partnership with the U.S. in NORAD could force it to become involved in the U.S. SDI program. Some of the Canadian Parliament Members are urging the Canadian Government to insert into the renewed NORAD agreement a clause, similar to one which had been in several earlier agreements, which explicitly rules out a Canadian role in "active ballistic missile defense". The desire to insert the clause is based on a concern that NORAD will in the future assume responsibility for an SDI deployment. Another Canadian delegate suggested that, in lieu of an ABM clause in the agreement, there could be a joint statement of commitment on deterrence and the ABM treaty.

Another Canadian participant said that establishment in September 1985 of a new U.S. Space Command at Colorado Springs, colocated with NORAD, might impact adversely on Canada's traditional role in NORAD as an equal partner, reduce NORAD's role, and thereby diminish Canada's role.

The U.S. Government has argued—and General Robert Herres, the Commander-in-Chief of NORAD and the U.S. Space Command, has explained to the Canadian Parliamentary Committee—that since NORAD's mission statement does not include active ballistic missile defense, and since any hypothetical proposed change in mission would require the consent of the Canadian Government, a statement in the agreement of what missions NORAD or Canada will not perform is not necessary. The U.S. Government has therefore suggested that the current NORAD agreement be extended for an additional five-year period without any alteration of the current language.

An American delegate responded to some of the Canadian concerns about NORAD saying that NORAD's mission statement does not include active ballistic missile defense and that, although necessary adaptations in NORAD's structure and consolidation were occurring, the United States was not trying to maneuver the Canadians into SDI through a NORAD back door and that the United States had no intention of trying to change NORAD's basic role.

CANADIAN DEFENSE SPENDING AND ROLE IN NATO

A Canadian delegate led the discussion by explaining that the international strategic outlook requires increases in the collective

military capabilities of the North Atlantic Alliance. The emphasis of the Canadian Government has not been to add to the number of commitments, but rather to increase the capacity to fulfill existing ones. The current Canadian fiscal plan provides for increased real resources to be devoted to security and defense. Accordingly, the Canadian Department of National Defense is looking at the proper and most productive relationship among four requirements: first, to fill out in manpower and material the present force posture; second, by means of timely programs of equipment replacement and modernization, to assure the continuing effectiveness of existing military capabilities; third, through such measures as prepositioning in northern Norway heavy equipment for Canadian land forces earmarked for reinforcement of that area, to enhance the deterrent value of Canada's commitment; and fourth, to enhance further the deterrent effectiveness of the Canadian Armed Forces by making prudent provision to increase their readiness for combat and their capacity to sustain combat operations in the event of hostilities.

The Canadian delegate identified several initiatives for 1985 and 1986. In the area of personnel, increases are planned. In 1977, when it became evident that the Canadian Forces' mission could not be accomplished with an authorization of some 78,000 military person-years, the government approved a gradual increase of some 4,700 person-years (at 400 person-years per year) to a total of some 82,700 person-years. The increased spending on capital projects has generated a steadily increasing demand for personnel associated with the planning and management of capital projects. The point now has been reached where demands of the capital program can no longer be met without additional personnel resources. Consequently, the Department will increase military person-years by nearly 700 in 1985–86.

More capital spending is also planned. In 1974, it was decided to substantially re-equip the Canadian Armed Forces, and to this end provision has been made for significant real growth in equipment spending. The share of the budget devoted to capital expenditures has risen from 12.2 percent in 1975–76 to an estimated 27.1 percent for 1985–86. In addition, to redress specific readiness and sustainability shortfalls, an amount equal to ¼ percent of the defense budget was identified, beginning in 1984–85, for increasing Canadian forces' capability to meet and fully sustain commitments in emergencies.

An American delegate expressed appreciation to Canada for its increased help in maintaining NATO defenses, but saw a need for both the United States and Canada to do more to improve conventional defenses. The vulnerability of Europe to a Soviet attack is still real and, therefore, the United States and Canada both need to redouble their efforts and demonstrate with both presence and tangible commitments a North American resolve of firm support.

DEFENSE PRODUCTION SHARING

Canada's defense industry is in a unique position under U.S. defense development and procurement policies, and the U.S. relationship with Canada in defense production and trade is closer than

with any other country. This relationship had its origin in the defense production planning mechanisms initiated during World War II, and Canada is treated in many ways today as part of the U.S. defense procurement base.

A Canadian delegate noted the extensive defense production sharing which dates back to the 1940's, with two-way defense trade amounting to some $22 billion since 1969. Although the balance favored the United States during the last 4–5 years by $1.4 billion, it was noted that Canada's exports to the United States have doubled in the same period, amounting to nearly $1.6 billion. The relationship is working well, according to the Canadian delegate, and it should not be changed.

Another Canadian participant spoke to three specific concerns in this area. First, it was pointed out that U.S. security requirements prevent Canadian companies from bidding on some U.S. defense contracts. Second, Canada often has to buy U.S. items off the shelf, and Canada has less to offer in exchange, resulting in a persistent imbalance of defense trade. Finally, the United States and Canada are currently involved in negotiations on exchange of information in the defense area, and Canada hopes for joint efforts for sharing of strategic technology information. The participant indicated that several of the issues he had mentioned should be discussed in any U.S.-Canada free trade negotiations and hopefully can be resolved there.

An American delegate acknowledged these problems but stressed the United States worry about Soviet access to information through its allies and the fact that this worry colored many U.S. decisions on defense cooperation.

A Canadian delegate countered by voicing a Canadian concern that U.S. defense companies operating in Canada were often selling military equipment to certain third countries without consulting Canada and sometimes contrary to Canadian foreign policies. The delegate mentioned some Central American sales.

Another Canadian participant spoke to the concerns of technology transfers to third countries, including the Soviet Union, and said Canada feels strongly it is playing by the rules. Canada has an Export Control Unit which is active, well staffed, and careful about Soviet transfers and checking with NATO beforehand.

It was agreed that both countries need to be more careful about technology transfers to the Soviet Union and its allies.

Another issue raised by the Canadians was the small business set-aside program. Canada would like to be included in that element of the U.S. defense program, and a Canadian participant wanted to know if Canada could be optimistic about possible participation. An American delegate answered by suggesting the best route to such participation might be for Canada to create a parallel small business set-aside program and thereby provide another channel for two-way trade. He also noted that 50% of the U.S. set-aside can be subcontracted to other firms, including Canadian firms, by the primary participant.

SPACE STATION COOPERATION

Planning on the U.S.-initiated, potentially $8 billion Manned Space Station is moving forward, and several U.S. allies, including Canada, are proving to be active and enthusiastic partners. In 1985, Canada signed a Memorandum of Understanding with NASA governing its participation in the design phase of the Space Station, and it is currently working with NASA on the specific pieces of hardware for which Canada will be responsible. It intends to invest $300-$600 million in the project according to Canadian participants. Because of its expertise in space robotics, (Canadarm is the remote manipulation arm on the Space Shuttle), Canada wishes to be assigned some major servicing and maintenance responsibilities, which might include building and managing the operation of a remote manipulator arm, a computerized robotics system, and possibly some sort of shed for storing materials and doing repairs in a semi-protected environment. No decisions have been made yet on the specific pieces of hardware that Canada will contribute.

This is a new issue in U.S.-Canadian relations, and questions were raised about it. A Canadian participant questioned what impact the Challenger accident might have on the project and whether it could delay the program, and another expressed doubts about the practicality of the scheme.

An American participant suggested that the commercial application of this scheme was unclear and that the recent Challenger accident might delay NASA projects but would not change the overall U.S. commitment to the space program. The American delegate concluded that it was still unclear precisely how the Challenger program would proceed.

MULTILATERAL

LDC DEBT

A U.S. delegate led off the discussion on this issue by asserting that considerable progress has been made in the last three years in addressing the debt problem of less developed countries (LDC's). The LDC debt problem has not been solved but, for the most part, the decline in the growth rates of the LDC's gross national products (GNP) has been arrested, and in most cases, their current account deficits are down. Further progress in addressing the debt problem will still require economic reform by the LDC governments, for example measures to bring down domestic inflation rates. However, the pressure on them to make some politically difficult economic reforms has eased somewhat with the decline in the world market price of oil. Another potential problem area in continued efforts to bring the LDC debt problem under control is a sharp reduction in the level of net new lending to LDC's by commercial banks, even loans to countries who have undertaken economic adjustment programs endorsed by the International Monetary Fund (IMF). Net new commercial bank lending to the LDC's dropped from $25 billion in 1982 to almost nothing last year.

The U.S. speaker continued by reminding the Committee that U.S. Treasury Secretary James Baker offered a U.S. debt initiative proposal at the annual joint meeting at Seoul, Korea, of the IMF

and the World Bank in October, 1985. That initiative, known as the "Program for Sustained Growth," is intended to promote economic adjustment and debt relief for the 15 principal middle-income debtor nations. It builds on the case-by-case debt strategy approach agreed between the United States, Canada, and our other Economic Summit partners in 1983 and expanded upon during the last two years.

The U.S. initiative consists of three basic, mutually-reinforcing elements: (1) Major debtor countries must adopt comprehensive macroeconomic and structural policies to promote growth and balance of payments adjustment and to reduce inflation. (2) The IMF would continue to play a central role in addressing the debt problem in conjuction with greater and more effective structural and sectoral lending by the multilateral development banks (MDB's). [In the latter regard, the Secretary indicated that the United States would consider the need for a capital increase for the World Bank if the Bank demonstrates a capability of increasing the quantity and quality of its policy-based lending.] (3) Commercial banks would need to increase their lending to support growth-oriented policies of the major debtor nations. The Secretary suggested a level of $20 billion in net commercial lending over the three-year period of 1986 through 1988.

The American delegate stated that international reaction to the U.S. initiative has so far been positive, especially with regard to its growth promotion orientation. The Cartagena Group, made up of eleven Latin American debtor nations, welcomed the Baker proposal, but they also called for additional steps. Among those steps are: a return of real interest rates to historic levels, an annual increase in net new commercial bank lending at least equal to the inflation rate, a ceiling on Latin American outward transfer of financial resources, and a substantial increase in the MDB's resources. The U.S. speaker viewed the call for a return to "historic" interest rates as an indirect call to the United States to bring down its current interest rates.

The American participant noted that the World Bank and some regional development banks are supportive of the Baker proposal. Those institutions are moving to negotiate structural and sectoral adjustment loan programs with debtor nations.

He continued by pointing out that the drop in world oil prices has been a mixed blessing for the LDC's. It has been helpful to countries like Uruguay by reducing its oil import bills. It has adversely affected countries like Mexico, for example, by reducing revenues earned on oil exports.

The U.S. member concluded his presentation by advising the committee that some very large U.S. commercial banks have great exposure in the level of LDC debt in their loan portfolios. For example, he pointed out that the Bank of America, the largest commercial bank in the world, is the largest commercial lender to Mexico. Significant loan payment defaults by the major Latin American debtors could have serious repercussions for such large and exposed U.S. commercial banks and even the U.S. banking system.

A Canadian delegate responded to the U.S. presentation by asserting that LDC debt is a long-studied problem for which little by

way of solutions have been identified. While the debt problem may have improved somewhat, he argued that the dollar size of the debt and the terms indicate that those loans will never be repaid as orginally contemplated.

The Canadian participant suggested that we must find ways to restructure or redistribute the debt and find ways to change the rules of operation of the international financial system to reflect new world economic realities. However, we must do so in ways which will not be so disruptive to discipline in the international financial system that the whole "house of cards" commercial sector of the system collapses. We may not be able to find a comprehensive approach to this problem. Instead, we may be forced to react and adjust to LDC debt probems on a case-by-case basis, if we are to maintain the required level of discipline in the international financial system.

An American participant called the LDC debt situation a "ticking time bomb." He predicted that more debtor countries will emulate Peru and adopt a "go-your-own-way" policy toward their debt obligations. If that type of action does become a trend among LDC debtors, will it be viewed as primarily a problem for the commercial lenders, mainly U.S. banks in the case of Latin America, or for the IMF? He argued that the European countries and their commercial banks have little interest in the Latin America debt situation because they are preoccupied with the status of their loans to East European debtor countries. Another U.S. delegate did not foresee many other LDC debtors following Peru's lead. A Canadian member agreed it is unlikely, as long as we continue to be generous with them. The previous U.S. speaker replied that many LDC's may eventually find they have no choice but to follow in Peru's footsteps.

An American member warned that he sees no inclination in the Congress to take legislative steps to "bail out" the commercial banks if a trend of defaults by LDC debtors develops, or to subsidize interest rates on lending to the LDC's. A previous U.S. speaker concluded the discussion on this issue by replying that the U.S. Government cannot let large U.S. commercial banks fail in the event of LDC debtor defaults because of the serious adverse effects it would have on the entire U.S. banking system.

INTERNATIONAL TERRORISM

An American delegate opened the discussion, commending Canada for its strong support on a multilateral, as well as a bilateral, basis for efforts to combat the growing menace of international terrorism. Terrorism clearly is not going to go away. The United States needs more friends like Canada to help produce in the international community tangible measures of cooperation in the fight against terrorism.

In particular, deep appreciation was expressed for the efforts which Canada has undertaken in the International Civil Aviation Organization to work closely with U.S. efforts to upgrade ICAO's minimum standards. In 1985, the Congress of the United States passed a major initiative concerning international airport security,

and Canadian efforts at ICAO are enabling the United States to implement this legislation intended to protect travelers.

Several other initiatives are underway to address this problem. First, the Committee on Foreign Affairs of the U.S. House of Representatives has for some time been promoting the concept of an international coordinating committee whose sole focus would be terrorism. Several members of the U.S. Congress hosted a working meeting at the 40th Session of the United Nations General Assembly last fall to promote and gain support for the establishment of such a coordinating committee. Right now there is no such entity to deal solely with ways in which the international community can work together more effectively to combat international terrorism. What is envisaged is a task force to deal with promoting international cooperation without creating another bureaucracy.

Second, the U.S. Congress will shortly be considering another omnibus anti-terrorism bill which will address several initiatives, some of which have been discussed for years. A key component will be a $4.4 billion, five-year package to upgrade the security of U.S. embassies and installations overseas. Although this security package, which came out of a Presidential Commission created following attacks on the U.S. Embassy in Lebanon, has gotten caught up in the budget battle in the United States, there is a determination to proceed with the security upgrade. Other elements in this legislative package include: maritime security measures for both ships and ports; calling for a conference on nuclear terrorism and efforts to upgrade IAEA safeguards and inspections; trying to create an enforcement capability for ICAO, perhaps based on the desire of pilots to cut off air traffic to states supporting international terrorism; coordination by governments on falsified passports and visa documents; calling for travel advisories to certain states supporting international terrorism; seeking an international agreement stipulating that terrorism is a crime; establishing a reward capability and setting up a "ten most wanted" list of international terrorists; and calling for condemnation of the use of diplomatic privileges and immunities under the Vienna Convention for terrorist purposes. This legislation is being put on a fast track.

Third, the U.S. Congress is considering, with appropriate safeguards, giving the Secretary of State authority to terminate U.S. assistance or trade with a person or country supporting international terrorism or providing safe haven to known terrorists.

Fourth, the U.S. wants to expand its anti-terrorist training programs for countries. The United States is already providing such training assistance to several countries, and the program is viewed as highly successful.

It was noted that the State Department is responsible for overall coordination of counterterrorist policies in the U.S. Government, although the Agency for International Development conducts the training program and there is an Interagency Task Force on Terrorism which meets regularly and which brings together several U.S. Government departments.

A Canadian delegate expressed interest in the many programs the United States is undertaking to deal with the growing problem of international terrorism. Canada used not to regard this problem as a high priority, but after several incidents—the killing of Cana-

dian citizens in terrorist attacks overseas and bombs placed in Canadian airplanes or planes leaving Canada—the Canadian government has become energized, and airport and border control has increased, consultations with groups outside Canada on terrorism have intensified, and Canadian posts overseas have been given added protection. Today, Canada feels as galvanized on this issue as the United States and wants more international cooperation.

The Canadian delegate also made three other comments. First, many Canadians see a deteriorating respect for international law, and this is a matter of increasing concern. There is also a sense in Canada that terrorism finds a breeding ground among many refugee groups living in deprived circumstances. Finally, the delegate noted it will be easier to toughen airport security at smaller airports and follow stringent security measures such as those adopted by El Al, the Israeli airline, than at larger airports where a lot of people transit such as in Chicago, Illinois.

It was also noted by another Canadian participant that the Soviets have been victims of terrorist incidents recently, and they might be more serious now about achieving broader international cooperation in this area, and the United Nations might be an appropriate forum.

An American delegate raised two other areas in combatting international terrorism on which some progress has occurred and more is desirable. The first is in the prosecution of international terrorists. The 1984 Omnibus Crime Control Act makes it a violation of U.S. law to injure a U.S. citizen in a hijacking or terrorist incident overseas. There is the ability to go to U.S. courts to try to establish probable cause and get an indictment and then go after the terrorists. Such an indictment can be obtained quickly, even in a few days. There is also U.S. legal precedent for trying to take a person overseas into custody forceably, although it can be a controversial legal area as it was for Israel in taking Adolph Eichmann from Argentina. The U.S. precedent dates from the last century and was upheld in the U.S. Supreme Court. It was stressed that although retaliation can be justified in certain incidents of pursuit of terrorists, the United States cannot retaliate indiscriminately and kill innocent civilians. Retaliation must be structured in a discreet fashion to avoid being construed as an act of war. It was felt that efforts to broaden U.S. jursidiction, use established criminal procedures internationally, and try to take terrorists into custody would continue and be intensified in the coming months.

. A second point stressed the need for more extensive economic sanctions against countries supporting international terrorism. Congress gave the President authority last summer to take stringent actions against Libya, and those powers were invoked earlier in 1986 following the late December 1985 terrorist incidents at the Rome and Vienna airports. While praising the actions taken by Canada and Italy following these incidents, disappointment was expressed in the reactions of other allies, especially the British. The view was expressed that the allies need to show a lot more staying power if efforts to combat international terrorism are to succeed. The legislation on Libya was felt to serve as a useful example for other cases.

THE CONTADORA PROCESS AND CENTRAL AMERICA

The lead American speaker introduced the subject of the Contadora process and Central America by saying that the issue of military assistance for the contras, which Congress will have to focus on shortly, was clearly the single most controversial foreign policy issue before Congress. At the center of the debate will be the Contadora peace process and the question whether or not U.S. military assistance for the contras will help or will hurt Contadora.

The President of the United States contends that without military power, diplomacy will not work, and if the United States can apply more pressure, the Sandinistas can be forced to change their behavior. It was noted that President Reagan in a recent statement to Congresss stated that the United States would resume bilateral talks with the Sandinistas if the Sandinistas talk to the contras. He envisages one simultaneous beginning of those talks, outside the Contadora process.

Critics of U.S. policy say more U.S. pressure will not work and the funding of the contras will undercut the Contadora process. Furthermore, critics are convinced that the United States has not vigorously supported Contadora, and, in the six months following the third Contadora draft treaty, the United States had issued no statement on it and had detailed no criticisms of it.

There did, however, to this delegate appear to be two issues on which a vast majority of Americans could agree: first, the Sandinistas were becoming an increasingly difficult group to deal with, and their support in the United States could not be lower. Repression at home and strident ideology and rhetoric were at the core of the problem. Second, most Americans support Contadora, but the problem is that Contadora has not been able to achieve its objectives.

This delegate concluded his introductory comments by explaining briefly the September 1985 Contadora Treaty draft, a third draft, which took into account the objections of the Central American governments to previous drafts. This draft treaty called for commitments from Central American states on a variety of political and security provisions. The political provisions called for treaty signatories to:

—Respect certain principles, including renunciation of the threat or use of force against other States, and non-interference in the internal affairs of other States;

—Establish or improve representative pluralistic, democratic systems, encourage national reconciliation, and create mechanisms that will permit a dialogue with opposition groups;

—Guarantee full respect for human rights, to comply with international agreements on the subject, and to guarantee the independence of the judiciary; and

—Guarantee full political participation and democratic elections.

The security provisions called for treaty signatories to:

—Give prior notice of military maneuvers and limit maneuvers involving the armed forces of two or more countries with a view to negotiating an end to such maneuvers;

—Eliminate foreign military bases;

—Eliminate arms trafficking and support for individuals or armed groups which seek to destabilize the governments of other signatories; and
—Refrain from support for individuals or groups engaged in acts of terrorism, subversion, or sabotage.

This draft also calls for two committees to supervise treaty implementation and verify fulfillment of all security commitments the signatories undertake.

A Canadian delegate noted that there was not a great deal of disagreement in Canada regarding Canada's policies toward Central America and that Canada was 100 percent behind the Contadora process. Canada had been asked by the Contadora nations to prepare comments on the security and control provisions of the draft Contadora treaty, and those Canadians who have seen the Canadian comments are impressed with the details and technological means envisaged to make an agreement work. Canada, it was felt, remains open to participation in Central America to help implement a signed Contadora treaty. The problem was getting to that point.

The Canadian delegate also indicated that Canada was opposed to military aid the contras and wanted to maintain trade and economic assistance relationships with all Central American nations, including Nicaragua. It was noted that there was a Nicaraguan trade mission in Toronto and that there were historic ties of Canadian churches and non-governmental organizations with all Central American countries.

The delegate concluded by expressing uncertainty over the direction of United States policy. The possibility of the United States helping to wage a low intensity war in Central America for a long period of time through support of the contras concerns many Canadians. On the other hand, the recent revitalization of the Contadora process and the visit to Washington of eight Latin American foreign ministers to promote the Contadora process could provide a turning point. To that end, Canada is anxious and wants the United States to give Contadora real support.

A second Canadian delegate indicated that while Canada does fully support Contadora, many Canadians are increasingly concerned about Nicaragua's ties with Cuba and the Soviet Union and about Nicaragua's many efforts to destabilize its neighbors. Contadora will remain, it was concluded, the framework for Canadian involvement in Central American conflict resolution efforts.

Several American delegates spoke and presented various viewpoints. One participant felt that the contras were quite different from the Somoza leaders and represented the genuine democratic opposition which the Communist Sandinista government of Nicaragua drove out of Managua. Concern was expressed about Soviet and Cuban involvement in Nicaragua, the military build-up in the country, and militaristic actions like the creation of an 8,000-ft. runway, which obviously would have little use for just Nicaragua. It was noted that Central American and Caribbean nations want the United States to stay involved against the Nicaraguan Government and that the United States has a legitimate national interest in preventing a Cuba in Nicaragua. The Sandinistas would not

survive long, it was noted, without a constant Soviet resupply effort.

Another American participant suggested that it was essential for everyone to be clear about what the Contadora process really was, and a hard look at Contadora would lead one to the conclusion that it provides each party with cover, but the process is really not going anywhere. For Nicaragua, Contadora gives a chance to stall while consolidating power. For the United States, Contadora can be supported to show we want peace. For Central American countries, it represents good diplomacy. It was suggested that attention should be directed more to the 1979 agreements Nicaragua made with the OAS and commitments the Sandinistas have broken, including commitments to pluralism, basic freedoms, economic reforms, and a non-aligned foreign policy.

A third American delegate intervened to suggest that the contras in fact were not dominated by democratic forces, that nine of ten military commanders were former Somoza officers, and that decisions being made in the field were made by Somoza men. It was noted that the contras have no real political cover, but argued that the United States has not given Contadora a chance and has not really tried to multilateralize a peace process in the region. The recent visit to Washington by eight Latin American foreign ministers was accompanied by a call for the resumption of U.S.-Nicaraguan bilateral talks and a delay in a request to Congress for assistance to the contras, but the United States regrettably paid no attention to these suggestions. This delegate concluded by saying that he believed the Sandinistas could be gotten out of office by the ballot box if we could ever get to elections there, and that is the goal of the Contadora process.

A fourth American delegate doubted that the Sandinistas would ever agree to free elections because they were dominated by doctrinaire Communists dedicated to a Marxist-Leninist blueprint which would never allow real elections. The United States tried in 1979 to establish a relationship with the Sandinistas to promote national reconciliation there and provided economic aid, but the Sandinistas were on a determined course. It was suggested that it does not matter what the United States does because it will not change the Sandinista's goals: the contras will not force them out and Contadora will give them more time to consolidate. The delegate was pessimistic about the future and could not understand why the United States would not provide assistance to Eden Pastora, a former Sandinista military leader now fighting the Sandinista government. The delegate concluded that what the United States needed to do above all else was to try to prevent the Sandinistas from exporting revolution in Central America, and the next step in the Contadora process was to try to get Nicaragua to sign an agreement. It was suggested that there was no good reason why Nicaragua would not sign a Contadora agreement except that its revolutionary agenda precludes it.

The American delegate who had opened the discussion on Central America made several concluding comments. First, it was unclear where the discussion led the group because participants could not agree on several points. U.S. policy at present is based on the premise that if enough pressure is applied against the Sandinista

leadership, the Sandinistas will change policies. Yet, some delegates felt that no matter what the United States does, the Sandinistas will not change their policies. Such basic difference over what U.S. policy could accomplish complicates the policy formulation process. Second, a related problem for U.S. policy is that there is no clear articulation of the goals of U.S. policy. Some U.S. officials talk of more pressure to force concessions from the Sandinistas. Others, including Secretary Shultz, say the goal of current policy is to deny the Sandinistas a military victory. Still others continue to talk of military victory by the contras as the goal of U.S. policy. These inconsistencies also affect policy formulation. Third, it is clear that present U.S. policy is not working: the contra war is not bringing effective pressure; the Sandinistas are more repressive than they were; Cuban and Soviet presence has quadrupled since 1981; and the prospects for democratic rule in Nicaragua have never been worse. Finally, it was suggested that a better U.S. policy might couple stronger support for Contadora with a policy of isolation and containment of Nicaragua. To be successful, such a policy must be long-term, tough but articulated accurately, cannot be unilateral, and must include an effective negotiating process. It was concluded that U.S. policy in Nicaragua is at a juncture, and the direction of policy could be decided in March 1986 when Congress considers a new $100 million military and economic assistance request for the contras. The future course of Contadora diplomacy could be determined by the outcome.

COMMITTEE III—FISHERIES, ENVIRONMENT, AND MULTILATERAL ISSUES

Committee III was chaired by James Oberstar and Nathan Nurgitz. In addition to Senator Nurgitz, the Canadian delegation was represented by Members of the House of Commons Charles Eugene Marin, John Fraser, Ross Belsher, Gordon Taylor, Jack Ellis, Jim Fulton, and Sid Fraleigh. U.S. members included, in addition to Mr. Oberstar, Congressmen Morris Udall, Bob Traxler, Jim Weaver, Arlan Stangeland, and David Martin.

On opening the deliberations of Committee III, a U.S. delegate cited the progress that had been made on several issues under consideration by the committee, including the management of East Coast Fisheries, the Pacific Salmon Commission, Minnesota-Ontario border fishing issues, and the Garrison Diversion Unit. In expressing the hopes of both delegations for continued progress, he quoted former Prime Minister Meighan: "We are not in the same boat, but we are surely in the same waters." We must try, he said, to steer in the same direction. This set the tone for the committee's deliberations.

Fisheries and Border Issues

FISHERIES MANAGEMENT QUESTIONS

The management of East Coast fisheries is a complex matter, complicated by the significant differences in management practices between the United States and Canada. Canada has adopted an approach that includes limited entry, enterprise allocations, annual total allowable catches, and quotas. The U.S. approach, developed by the New England Council, relies primarily on gear regulation and closed areas to manage the stocks.

An American delegate expressed satisfaction at the progress that had been made, but stated that the differences in our management approaches continue to hinder a settlement of the problem. A Canadian delegate responded that the major problem for Canada is that Canadians do not know who to talk to in the United States—the federal government, the state government, the Congress? He went on to say that there are individuals in Canada who would be prepared to talk, and that we should be talking rather than fighting a war of headlines in each other's media.

An American delegate asked what the management approach of the Canadian government is on ground fish, and how it differs from the U.S. regime. We have, he said, decentralized fisheries issues in the United States and urge Canada to do the same. These are not and do not have to be national issues, and can be dealt with by regional councils. A Canadian delegate responded that there is a perception on the part of the United States that, because

the national government is involved, that means the local areas are not flexible on the issue. He went on to cite the Canadian-U.S. Pacific Salmon Treaty as proof that we can reach agreement on common problems by listening to the regional people who know best.

An American delegate stated that George's Bank will continue to be a sticking point. If it is the process in each country that is the stumbling block, he said, we have to meet it head on, but, if it is a genuine concern over the stocks, that can be resolved. A Canadian delegate responded that the problems with government management can be worked out, and that what really needs to be done is to get U.S. and Canadian fishermen around a table to talk. Until then, he continued, the Canadian Government will be reacting to pressure groups. He repeated that there are individuals who are prepared to talk, but are afraid to say so.

The same Canadian delegate went on to say that the Canadian Government had finally realized that the days of trying to create new jobs and make the economy grow on fishing are over. An American delegate quickly responded that this was a totally new insight into the thinking of the Canadian Government. The discussion then turned to the advertising campaign for Canadian fish being conducted in the United States, to which a Canadian delegate responded that the campaign had been stopped. One of the American delegates disagreed, saying the advertising was continuing.

The discussion concluded with a statement by an American delegate about the increased demand for fish in the United States due to changes in diet. He cited research that indicated that we would soon need one fish patty per day for every child. We ought to stop fighting, he said, and figure out how to fill the demand in both countries. He concluded that there is no need for another presidential council; rather, the regional representatives from both countries need to be brought together. We can all concur, he said, in the approach of bringing together those most affected by this problem.

HIGH SEAS INTERCEPTION OF UNITED STATES/CANADA SALMON

An American delegate expressed his alarm that, if the interception of Alaskan and Siberian salmon on the high seas by Japan was not stopped, there were not going to be any left. A Canadian delegate agreed and stated that the Japanese mother ships are dropping nets and taking more halibut into their nets accidentally every year than the United States and Canada catch together deliberately. The American delegate expressed concern over statements that the Canadian Government wanted the collection of further scientific data before any action could be taken. A Canadian delegate expressed surprise at the statement and added that he wanted to check on the Canadian position and explore the possibility that an attempt was being made to muzzle Canadian scientists. Members of both delegations agreed to draft a statement in support of a joint Canadian-United States venture on this problem.

MINNESOTA-ONTARIO BORDER FISHING ISSUES

The decision by Ontario to impose a $3.00 daily user fee on U.S. sports fisherman in early 1985 led to charges that Canada wished to promote its tourist industry at the expense of the United States. At meetings between Ontario and Minnesota officials in January, Ontario announced plans to levy a user fee on Ontario residents also. This decision has, in the view of the United States, removed the discriminatory aspect of the fee. An American delegate hailed the progress that had been achieved on this issue and expressed his appreciation of the willingness of the new government in Ontario to be cooperative. He asked the Canadian delegation to convey the thanks of the American delegation to Premier Peterson of Ontario. The American delegate concluded by attributing much of the progress that has been achieved to the contacts made each year through the Canadian-United States Interparliamentary Group.

CYPRUS ANVIL MINE TRANSPORTATION

The White Pass and Yukon Railway runs from the Yukon to Alaska. The railway has not operated since 1982 because of the closure of the Cyprus Anvil Mine, in the Yukon, which had provided most of the bulk freight revenues. The possible reopening of the mine raises the question of whether to reopen the railroad or to rely on road transportation. An American delegate began the discussion by stating that, in the four years that the railroad has been closed, nearly $15 million in assets have been lost. He went on to describe the railroad system as a unique and historic bit of nostalgia that must be salvaged. He asked the Canadian delegates whether they thought it possible to take on the railroad as a living monument and whether they felt that the surrounding cities might agree to revenue bonding. The railroad would be a great tourist attraction, he said, and donating it for tax purposes could be the way out of this dilemma. A Canadian delegate agreed that the potential for tourism is great, particularly in view of its proximity to the Alaska Highway.

Environmental Issues

ACID RAIN

The transformation of the acid rain discussion over the years was evidenced by the considerable consensus on the issue among the members of Committee III. What had been the most contentious issue, and the focal point of heated debate a few years ago, now is subject to almost unanimous agreement that acid rain represents a major environmental problem. A Canadian delegate observed that in the past, the greatest difficult was getting the attention of the United States. After a brief review of the difficult history of the dispute, he noted with satisfaction that such was no longer the case. There is now common understanding of the threat that crossborder pollution poses in environmental and economic terms.

A Canadian delegate noted that the Canadian Government intended to continue on its unilateral approach of reducing Canadian

SO2 emissions by 50% by 1994. This effort, begun in part as a response to United States criticism, is a significant step, though it will not save the most sensitive or granite based lakes.

The Canadian delegate then turned the discussion to the most pressing part of the acid rain issue: The Joint Report of the Special Envoys on Acid Rain. The Special Envoys, William Davis of Canada and Drew Lewis of the United States, have presented both governments with 13 recommendations, including a proposal for a $5 billion, five-year United States industry and government program to sponsor clean coal burning demonstration projects. The Canadian pointed out that most Canadians do not view the Report as adequate. They do, however, recognize that the Report represents the first evidence of recognition by the United States Government of the need to improve air quality and respond to the adverse impacts of acid rain. At least, he said, the U.S. Government no longer talks about acid rain as not being a problem.

Even with this progress, Canadians remain concerned about the level of support that United States Envoy Lewis is receiving. The Canadian speaker candidly explained that the current Conservative Government of Canada is strongly pro-American. This is an important shift in the Canadian approach. The approach will be put to the test on March 18th when Canadian Prime Minister Brian Mulroney visits Washington for a summit meeting with President Reagan. Unless there is progress and a strong endorsement of the Envoy's Report, the Canadian Government will face major difficulties at home.

A United States delegate observed that, for the first time, the Southwestern United States is being confronted with transborder air pollution from Mexico. It does, he conceded, tend to focus the mind. The principal domestic problem in the United States currently is the budget deficit. Envoy Lewis did well in the report, but the Environmental Protection Agency is undercutting him. He expressed the fear that there would not be strong Reagan Administration support for the $5 billion program proposed in the report.

A Canadian delegate observed that there are strong United States economic interests involved. In Canada the problem is not that we do not know enough about acid rain, but who pays. He concluded that Canada's Envoy Davis completed his task with his integrity intact. He did as much as was humanly possible and went as far as he could. The real question is what will be the United States reply during the Reagan-Mulroney summit meetings.

Toxic Wastes and Great Lakes Water Quality

A Canadian delegate opened the discussion by referring to the issue of toxic wastes as a time bomb ticking. He went on to describe a situation where over a period of time the toxic wastes dumped into waterways have created what is referred to in Canada as "the St. Lawrence blob." He described efforts by Ontario in response to a recent cleanup incident as keeping Americans informed of all cleanup operations, and taxing firms as required payment for cleanup. We hope, he said, to get that kind of swift action from the States. He expressed frustration that Ontarians have the strictist

environmental controls while Cleveland continues to dump raw sewage into the lake system.

An American delegate responded with congratulations to the government of Ontario for keeping Michigan fully informed of its cleanup action on the St. Lawrence. There is a great deal of concern on the issue in the United States, stated the American delegate, adding that 20% of Americans get their drinking water from the St. Lawrence system. He cited the renewal of the Great Lakes Water Act as testimony to the concern of both sides on this issue.

GARRISON DIVERSION

The Garrison Diversion is a large water project in North Dakota which has been of major concern to Canada because of the potential negative impact on Canadian waters. This situation led to the creation by the Congress of the Garrison Special Advisory Commission in 1984. The work of the Commission has produced a recommendation that does not use Missouri River basin water for irrigation in the Hudson's Bay drainage. A Canadian spokesman noted his pleasure with the recommendations of the Commission and the end to this longstanding dispute. He concluded that this would be the last time this issue would need to be on the agenda.

NUCLEAR WASTE DISPOSAL

The disposal of nuclear waste by the United States was clearly the most contentious issue addressed by Committee III. An American delegate began by summarizing the legislation before the U.S. Congress to create a high level nuclear waste program by the year 1990. He said there is awareness in the United States of Canadian concerns. A Canadian delegate responded that he could not think of a more damaging issue to U.S.-Canadian relations than the nuclear waste disposal problem. He agreed that the legislation under discussion was positive but stated that it did not fully take into consideration Canadian concerns. He expressed particular frustration over the fact that seven sites now under consideration in the United States as possible disposal areas require field work in Canada. An American delegate responded that he agreed that the United States did not have the right to go across the border to conduct field work in Canada, but that Canadians cannot ask the United States to treat Canadians better than we would treat Americans. The Canadian delegate responded that in the end the selection of sites for nuclear waste disposal will be a political one—whatever site counts less in the electoral college will get selected.

An American delegate representing a state where three potential sites are located asked the Canadian delegate what Canada is doing with its waste. The Canadian delegate responded that that is not the issue, but that he could assure the American delegate that the Canadian Government was not building any dump sites on U.S. borders. This issue affects Canadian sovereignty, he stated. The issue for Canada is that the United States should not be building sites on Canadian borders. The American delegate responded by asking how many miles from the border would be acceptable, and what analysis had been done by Canada as to the potential danger from the various sites. The Canadian delegate responded that it is

not Canadian waste and that Canada is not the one that has to prove that a particular site is not safe—the United States should go the extra step of proving to Canada that the site would not be harmful. The American delegate stated that the United States would not do anything harmful to the American people, and that, while not asking Canada to undertake any specific investigation, any help Canada could provide would be appreciated.

An American delegate rejoined the discussion with a status report that he had just received on the selection process. He reported that the Department of Energy would not consider sites near the Canadian border and had decided to drop from consideration two sites in Maine, one in Vermont, and three in Minnesota. This information concluded the meeting on a congenial note.

FLATHEAD RIVER

The Flathead River rises in Southwestern British Columbia, Canada, crosses the border into the State of Montana, and flows into the Flathead Lake, the largest fresh water lake west of the Great Lakes. A Canadian company proposes to open a coal mine in British Columbia, along Cabin Creek, a tributary of the Flathead River. Montana officials and environmental groups fear that the coal mine's operation could damage U.S. ecology. The International Joint Commission is reviewing the Flathead River situation and is due to release its report this spring.

An American delegate began the discussion by asking if Canada intended to mine coal and ship the wastes to the United States. A Canadian delegate responded that there was no immediate likelihood that that would occur, particularly because Canada has not as yet even developed a market for the immense deposits of coal to be mined. He concluded the discussion by saying that it is incumbent upon both Canada and the United States to follow the recommendations of the International Joint Commission. Canada had no intention of not living up to its responsibilities on the Flathead situation because, he said, it represents a case of Canadian environmental damage to the United States which Canada can use as an example to the United States on the acid rain issue. He concluded by saying that the Canadian delegation would like to leave the American delegation with a sense of urgency on this issue because of Canadian concerns on acid rain.

ASBESTOS

The risk to human health from asbestos is so serious that EPA proposed on January 29, 1986 an immediate ban on certain specific uses of asbestos and the phaseout over a 10-year period of all other uses. EPA also concluded that due to uncertainties regarding potency, all asbestos fiber types will be treated as having equivalent adverse biological activity. Canadian regulatory policy distinguishes among different product forms and fiber types of asbestos.

A Canadian delegate began the discussion by saying that EPA's decision is not warranted. Most Canadian asbestos exports go to the United States, he said, and the fate of the entire asbestos industry in Canada is affected because the rest of the developing world follows the United States actions in this field. Canadian research

argues that "chrysotile" fibers are much less dangerous, and can be processed and used safely. The American delegate responded that there is no distinction between types of asbestos and that EPA has taken the only safe position. The Canadian delegate responded that the fact that research in both countries came to differing conclusions illustrates that the debate continues. The subject of asbestos has become a warhorse for EPA, he said, and asked American delegates how further research could be conducted after a total ban is declared. It has become an emotional debate, he continued, and if the United States is going to impose an all out ban, we had better look at alternatives. An American delegate responded that it is not the role of the government to judge the issue, but rather it is the industry which determines safety. The Canadian delegate concluded his remarks by saying that Canada is satisfied that it can get its point across in the United States debate, but that scientific data contradicts itself, and Canada has other allies as credible as EPA. He recommended a more regulated approach rather than a straight ban. It is not just an issue of jobs, he said; those have already been lost. An American delegate closed the discussion by suggesting that both countries continue to share information, and by cautioning his Canadian counterparts to be careful when comparing scientific data produced by other countries because there is a likelihood that different criteria have been used.

Transboundary Issues

NORTHWEST PASSAGE/ARCTIC SOVEREIGNTY DISPUTE

There is a growing dispute between the United States and Canada over the legal status of the waters off the Canadian Arctic islands. On September 10, 1985, Canada claimed all the waters between the islands as internal waters of Canada, subject to full Canadian sovereignty. The United States position is that there is no basis in international law to support the Canadian claim.

The Canadian action reflected the public outcry in Canada after the voyage of the United States Coast Guard icebreaker *Polar Sea* from Thule, Greenland, to Alaskan waters through the Northwest Passage. Using the Northwest Passage, instead of the Panama Canal, as a practical matter, would save the Coast Guard considerable sailing days and expense. The voyage provoked a major public outcry in Canada, where it was seen as a challenge to Canada's sovereignty

An American delegate argued that the Coast Guard cutter's trip was fully negotiated beforehand. There was no intent to raise sovereignty issues and the public uproar was very much a surprise. Another American observed that Alaska has made its inside waters available to Canada on a regular basis. The Canadian position is not consistent. Unless we challenge this claim, we will be faced with similar situations in other areas.

A Canadian delegate expressed the view that the Coast Guard icebreaker trip came at a bad time and raised political questions about the approach of the Canadian Government to the United States. There have been charges that the Mulroney Government is giving away too much to the United States. Certainly the Canadian

Government approved the icebreaker trip, but Canada does not view these as international waters.

A Canadian delegate asserted that the area involved is Canadian. It is not international, and Canada does not intend to allow the Russians or others to use this passage. Canada is willing to go to the World Court. It is important for the United States to know that Canada feels very strongly on this issue. Another Canadian delegate put the position this way: No Canadian says don't go through. But equally strong is the view that this is a United States challenge to our sovereignty.

A United States delegate responded that the Canadian position could have an impact in other parts of the world. There are legal precedents for open access of these waters. Some countries claim 99 miles of coastal waters, and this could have a major impact on international navigation. A Canadian delegate strongly stated the Canadian position that they will not back off. While allowing United States vessels to transit the waters, we will not allow our internal waters to be considered international waters.

MARITIME BOUNDARIES

There continue to be unresolved disputes over the maritime boundaries between the United States and Canada. Though the boundary in the Gulf of Maine has been largely settled, there remain several outstanding disputed maritime boundaries: the Dixon Entrance between British Columbia and Southeast Alaska, the Strait of Juan de Fuca between British Columbia and Washington State, and the Beaufort Sea between North Alaska and the Yukon Territory. The extension of the Gulf of Maine boundary beyond 200 miles from the coast also remains to be decided.

A Canadian delegate began by noting that the United States has appointed a Counselor to the Secretary of State to oversee these maritime boundary issues. The Canadian appointment of a counterpart is imminent. In part, the delay is the result of the intense interest from British Columbia. He also observed that the resolution of the remaining issues would not be easy. In the Beaufort Sea the substantial oil and gas discoveries on both sides make an agreement difficult. In the Dixon Entrance the dispute involves substantial fishery interests, with Canada claiming a maritime boundary under a 1903 treaty (the A/B line between Cape Muzon and Portland Island) and the United States claiming an equidistant line that is midway between the United States and Canada. He concluded that the very major economic interests and the implications for law of the sea make prompt negotiations important to both countries.

ST. LAWRENCE SEAWAY USER FEES

A Canadian delegate began the discussion by commenting that the Seaway needs a way to increase its ability to carry its own weight. There have been three accidents, two related directly to maintenance. As a result, the Canadian St. Lawrence Seaway Authority has proposed that tolls be increased by 15% in 1986 to compensate for inflation and increased repair and maintenance costs.

A United States delegate responded that the Seaway is under increased competition and needs to be able to survive even given its seasonal schedule. He noted that the original construction of the Seaway reflected a political compromise in the United States that now impacts upon its rate structure. Given this, if the Seaway is forced to pay the total cost of the operations, it will not be economically feasible. The level of any fee increase must not impact negatively on Great Lakes shipping. Rather, what has to happen is to increase fees in a rational fashion that is consistent with rail and other water transportation costs.

STIKINE RIVER ACCESS

The Alaskan National Interest Lands Conservation Act of 1980 requires that the President study the effect of the act upon the ability of the Canadian Government to "obtain access" to the Stikine River region of southeastern Alaska, and to report on the need, if any, to provide for such access. The United States and Canada held talks in the spring of 1985, and a second round is scheduled for this spring. The Canadian Government has indicated that there are no current economic projects underway which would require a transportation corridor from northwest British Columbia through designated Alaskan wilderness areas. However, Canadian officials have expressed an interest in providing for a process by which any future needs for access through wilderness areas could be presented to United States authorities. Several prospective routes are under consideration by Canadian authorities.

A Canadian delegate stated that this will be a very costly proposal for Canada, and asked that the United States bear with Canada while it studies which routes are the most feasible. An American delegate responded that it would be helpful if Canadian officials could keep their counterparts in the United States abreast of developments as they prioritize the access routes under consideration.

PLENARY SESSION

Enhanced Canadian-United States Trade Arrangement

A member of the Canadian delegation commenced the discussion of an enhanced Canadian-U.S. trade arrangement with an explanation of the Canadian interest in, and perspective of, the pending negotiations. The historical experience is that several times Canada and the United States have entered into such negotiations, but they have been either not concluded or not implemented. It is unclear now whether Canada will have the nerve to see the negotiations through. There is uncertainty in Canada over the talks. Some Canadians are concerned that free trade could lead to political and/or cultural integration. The business community is generally supportive of the negotiations, and the trade unions are opposed. The two opposition political parties are dubious about the negotiations, as are the governments of the two largest provinces, Quebec and Ontario. Public opinion polls show that a majority of Canadians favor a free trade arrangement with the United States.

The Canadian government is strongly in favor of the negotiations and is gearing up for the talks. The ball is now in the American court, with the commencement of negotiations awaiting the end of the sixty-day period for congressional review. Recently thirty-eight Senators participated in a discussion on the floor of the Senate over the impact on the U.S. industry of Canadian softwood lumber imports. It was suggested that the Finance Committee should oppose fast track negotiations pending movement on softwood lumber. If such a condition were placed on the negotiations, there would be no negotiations. Canada is aware of U.S. concerns over lumber, and it is hoped that a solution will be found, but Canada cannot be blackmailed on one issue. If the Congress rebuffs the negotiations, there will be a powerful reaction in Canada, and the government will be forced to rethink the priority it has placed on building close relations with the United States. We are only proposing that negotiations be entered into; they will be tough enough without complications that could make them impossible.

A U.S. representative responded that he could not disagree with his Canadian colleague's presentation. Canada and the United States are the two largest trading partners in the world and enjoy the freest trade of any two countries. Canada has a merchandise trade surplus with the United States and the United States a services surplus with Canada, with Canada enjoying a surplus overall. He expressed optimism for the negotiations if they focus on principles not on specifics. One problem is that both countries are federations, Canada even more so than the United States, but the 50 States and 10 Provinces cannot be involved in the negotiations. In the recently negotiated free trade arrangement with Israel, a transition period for sensitive items was used instead of leaving those items

out of the free trade arrangement; the same approach should be used in the U.S.-Canadian negotiations. An economically strong and healthy Canada is in the U.S. interest, so we should be able to arrive at an accord.

A Canadian member explained that the Canadian provinces were being involved in the process of developing a negotiating position and that it would be necessary to specify exactly what the provinces will have to do to implement a trade agreement. The Canadian government has resisted entreaties to exclude certain sectors from the negotiations; it would be better to negotiate specific exclusions, if necessary, as the negotiations proceed. The process unfortunately is being delayed, and it may be 1987 before serious negotiations commence.

An American said that in the House of Representatives there will be no hearings, little discussion, and no roadblock to the commencement of negotiations. Another American expressed the opinion that there will be no roadblock in the Senate either, although the difficulties in the softwood lumber sector could affect the eventual outcome of the negotiations.

A question was asked as to how much trade will be on the negotiating table. The response by several members was all trade between the two countries. U.S.-Canadian trade amounts to some $120 billion a year, and accounts for 22 percent of U.S. exports and 75 percent of Canadian exports. By 1987, pursuant to the tariff cuts agreed to at the Tokyo Round, 85 percent of Canadian exports to the United States will be duty free and 65 percent of U.S. exports to Canada will be duty free. These percentages do not account for non-tariff barriers, the impact of which on trade flows is impossible to calculate.

An American member reemphasized that the recent State discussion of the problems in softwood lumber trade was not intended to condition the trade negotiations, and that one option might be a coordinated ban on the export of raw logs.

A Canadian pointed out that Canadian-U.S. trade has been growing and that the two countries have been able to resolve their bilateral trade problems. There is concern in Canada over the growing protectionist sentiment in the United States and the accompanying attacks channelled through the ITC, especially over the increasing frequency and costs of those procedures to Canadian industry. There is also concern over the American slogan of a "level playing field", because some items which to Americans are non-tariff barriers and trade subsidies are to Canadians important federal and provincial policies designed to promote greater social and regional equity. Does the United States expect the "leveling" of such policies, such as coordinating Canadian and U.S. corporate taxes when in Canada a portion of that tax goes for social programs? In fact, there are varying social programs on both sides of the border. At some point it will be necessary to balance the benefits of a bilateral trade agreement with the costs, and to assess the benefits of bilateral versus multilateral trade negotiations. It will also be important to evaluate to what extent a bilateral U.S.-Canadian trade agreement diverts trade and discriminates against other countries and furthers the development of regional trading blocs, and thereby breaks down the multilateral trading system.

An American member said it was important to put all issues on the negotiating table, even U.S. import relief regulatory procedures. He suggested that maybe both countries would have to give up some sovereignty in order to reach an effective trading arrangement, such as by submitting disputes to arbitration. Canada is America's best friend, but there are frictions in our trading relations that can be improved. Canada has a geographic predicament in that its productive capacity is along a long and narrow strip of territory, which makes transportation difficult. The United States is prepared to help Canada on that point. Americans appreciate the Canadian concern over culture, but it should not be used as negotiating leverage.

The outcome of the bilateral U.S./Canadian trade discussions should not have an adverse impact on the multilateral trading system, as both the EEC and Japan have been consulted and have expressed no objection. Any agreement will be consistent with GATT, so trade discrimination will not be a problem.

A U.S delegate suggested that Canada appears to be somewhat tentative in pursuing the negotiations—it took a year for the invitation to be issued and there has been reluctance to put some issues on the table. There are developments that threaten the disintegration of GATT, so a U.S.-Canadian arrangement may be important as an alternative if the GATT system were to collapse. A bilateral agreement could insulate the United States and Canada from their own external rules and regulations that could damage our trade relations. The negotiations should start with all issues on the table, and then some items can be exempted as necessary.

A Canadian warned that a bilateral U.S.-Canadian agreement could be a self-fulfilling prophesy in diminishing the role of GATT and the multilateral trading system. We are already witnessing the deterioration of international commodity markets. The multilateral trading system has to receive a greater priority than any bilateral trading relationship.

An American noted that the United States and Canada are the only two countries in the world which have annual meetings of their heads of state and quarterly meetings of their foreign ministers. It is a close and friendly relationship that must be protected and promoted.

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